

REPORT TO THE TASK FORCE ON  
NATIONAL SECURITY AND  
INTERNATIONAL AFFAIRS,  
HOUSE COMMITTEE ON THE BUDGET

BY THE  
COMPTROLLER GENERAL  
OF THE UNITED STATES



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Analysis Of Department Of  
Defense Unobligated  
Budget Authority

RELEASED

Department of Defense unobligated balances of budget authority for military activities grew from \$12.8 billion to \$34.5 billion during fiscal years 1972-76. During this period, the President's budget consistently projected higher obligations and lower unobligated balances than eventually developed.

This study

- examines the reasons for the growth in Defense's procurement accounts;
- looks at the actual experience in 32 procurement programs, including staffing and contingency matters; and
- analyzes Defense's processes for projecting obligations.

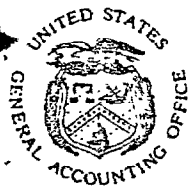
RELEASED

Recommendations are made to the executive branch and the Congress concerning problems in Defense's estimates of obligations and unobligated balances.

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JANUARY 13, 1978

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

B-159797

The Honorable Robert L. Leggett  
Chairman, National Security Task Force  
Committee on the Budget  
House of Representatives

Dear Mr. Chairman:

Pursuant to your request of June 3, 1977, we analyzed Department of Defense balances of unexpended budget authority. In September 1977, we provided your National Security Task Force a briefing document which provided overview data on trends in the unexpended balances, and a description of the Department's budgetary processes. On September 27, 1977, we testified on the subject before the Task Force. This report provides more detailed information on the reasons for the growth in balances, including those raised as questions in your June request.

The Department of Defense has stressed that its unobligated balances should be kept in perspective--i.e. that the estimate of \$217 billion in unobligated balances for the end of fiscal year 1978 for the total Government is greater than the Department's by more than tenfold. However, if the Department's balances are compared with total balances exclusive of balances in trust funds and guarantee and insurance programs, the Department's balances become about 40 percent of the remaining unobligated balances.

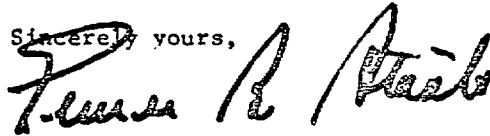
Due to the size and complexity of the Department of Defense budget and the short timeframe (6 months) in which this analysis was carried out, we did not verify the information provided by the Department. In addition, our analysis focuses on the procurement area; therefore, our conclusions cannot be readily generalized to the entire Department of Defense budget, nor can any of our comments on an individual weapon system be considered as representative of the entire procurement area.

At your request, we did not obtain formal agency comments on the matters discussed in this report. As arranged with your office, we are sending copies of the report to Senator Hollings, and Congressman Derrick. Copies of the report, after it's release, will also be provided to the Secretary of Defense and Director, Office of Management and Budget.

5-159797

We are available to discuss the report and answer any questions you may have on this important subject matter should you so desire.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Thomas B. Smith". The signature is written in dark ink and is positioned to the right of the typed name.

Comptroller General  
of the United States

D I G E S T

Department of Defense unobligated balances of budget authority for military activities grew from \$12.8 billion at the end of fiscal year 1972 to \$34.5 billion at the end of fiscal year 1976. (See p. 1.)

GAC was asked a series of specific questions about Defense's balances and the possible reasons for growth. The following is a summary of the results of our work responding to these questions.

--GAO did not find evidence that the buildup in unobligated balances for Defense's own procurements (excluding those for foreign military sales) between July 1, 1972, and September 30, 1976, represented a Defense inability to perform its programs. However, contractor production difficulties in the Army's M-60 tank program have led to a backlog of unfilled orders--program managers estimated that approximately 216 tanks costing \$130 million will not be delivered as planned in calendar year 1977. Army officials may be overly optimistic in projecting that the backlog will be overcome by March 1979. (See p. 68.)

--There is possible excess obligational authority in Defense's own procurement programs which could be reprogramed or used to fund future requirements:

-At the Army Armament Materiel Readiness Command, "unapplied reserves" of obligational authority exceeded \$40 million at June 30 for every year from 1975 to 1977, and reached \$97.7 million at September 30, 1976. (See p.64.)

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-At the Army's Tank-Automotive Materiel Readiness Command, "unapplied reserves" totaled \$86 million in September 1977, of which \$50 million has been identified by Command officials as excess to their needs. (See p.67.)

--Despite the existence of excess funds, Defense has not implemented a process for systematic and regular reporting on the availability of excess funds to the service and Office of the Secretary of Defense levels. GAO previously recommended that the Defense Department devote additional attention to this matter. (See p. 69.)

--Full funding, often cited by Defense officials in explanations of Defense unobligated balances, does not explain the \$5.5 billion growth (fiscal years 1973-77) in the balances in procurement accounts for Defense's own acquisitions. The "stacking up" effect of the full funding procedure, involving at any one time balances from several program year appropriations produced a growth in unobligated balances prior to fiscal year 1973. After then, increases in balances should be examined and explained in terms of program growth and/or a fall-off in obligation rates. (See p. 13.)

--Most (93 percent) of the \$5.5 billion increase in Defense's own procurement unobligated total over fiscal years 1973-77 was due to program growth--i.e. increasing funding levels--rather than an obligation rate decline. However, this total is a net figure reflecting divergent patterns in the

14 procurement accounts. In the 1975-77 period, 10 of the 14 accounts experienced increases in balances due to a decline in obligation rates from 1975 levels. These 10 accounts experienced a \$2.7 billion growth in unobligated balances, of which \$1.1 billion (41 percent) was due to an obligation rate decline. (See p. 16.)

--The 1976 fall-off in Defense procurement obligation rates probably related more to the sizable appropriation increase for 1976 (23 percent) and the problems of absorbing such an increase, than the lateness of the 1976 Defense Appropriation Act. Defense may have the potential for absorbing and efficiently obligating appropriation increases of this magnitude after an initial adjustment period. (See p. 20.)

--GAO's review of 32 selected weapons systems, ammunition commodities, and aircraft modification programs over the period from July 1, 1971, through September 30, 1976, revealed a wide variety of apparent reasons for identified decreases in Defense procurement obligation rates. These reasons listed below, cannot be readily generalized to the entire Defense budget or the entire procurement area. (See p. 21.)

- Delays in awarding contracts.
- Technical, planning, and production problems.
- Reserves.
- Funds withheld from program managers.
- Congressional actions.

Tear Sheet

- Better contract prices than budgeted for.
  - Staffing deficiencies (limited cases).
  - Invalid obligations.
- Many Defense program officials cited staffing deficiencies as a possible contributing factor to the unobligated balances, but did not consider this to be a serious factor. An exception may exist at the Army's Armament Materiel Readiness Command, where there is a rising number of unprocessed Program Work Directives and the possibility of staffing shortages. (See p. 93.)
- Defense unobligated balances in procurement accounts contain reserves for contingencies such as engineering change orders and inflation adjustments. Defense full budget requests, under the full funding policy, include amounts for such reserves. GAO found no evidence that identifiable contingency amounts in the procurement program were overestimated as a result of successive Defense levels adding to, and duplicating, the contingency estimates of lower levels. (See p. 101.)
- Through the 1972-76 period, the executive branch consistently underestimated Defense's unobligated balances. For example, as late as January 1976, the executive branch projected a \$19.9 billion unobligated balance for the end of fiscal year 1976 (June 30, 1976)--the actual balance realized was \$34.5 billion. (See p. 3.)
- The executive branch has not yet taken all the steps needed to better estimate Defense's procurement obligation rates and balances. For example, obligation rate guidance provided by the Office



of the Assistant Secretary of Defense (Comptroller) to the services for developing fiscal year 1978 and 1979 estimates, appears to be optimistic for some procurement accounts when compared with historical actuals. Also the Office of Management and Budget officials, while acknowledging that there has been a problem in the estimates of Defense procurement obligations, state that they do not provide obligation estimate guidance to Defense or systematically check its estimates prior to inclusion in the President's budget. (See p. 47.)

--Defense fund control problems, including Anti-Deficiency Act violations, in the accounting systems relating particularly to the procurement accounts and foreign military sales (these systems have not been approved by GAO) have been serious and extensive. These problems impair Defense's ability to effectively plan and monitor obligations or estimate unobligated balances:

-Of 154 accounting systems identified as subject to approval by GAO, 82 have not yet been submitted for approval.

-68 of the 72 GAO-approved accounting systems were approved relatively recently--within the last 5 years. Those which have been approved are primarily payroll, stock and industrial fund systems. (See p. 49.)

--The executive branch has revised the procedures for recording budget authority for foreign military sales, effective in fiscal year 1977. The effect has been to reduce unobligated balances by about \$13 billion (estimated).

The budget issues involved in this change are potentially far-reaching. GAO was unable to resolve these issues within the time available for this study, and is continuing work on this matter. GAO will report the results when available. The work will include an assessment of the impact of the new procedures on congressional program and budget control.

--Although a large increase in foreign military sales orders in recent years has increased workload on the services, Defense and the services cannot accurately assess the impact on staffing requirements--there is no system to adequately determine the number of personnel working on these sales. In view of this lack of reliable data, it is impossible to determine whether or not the 2 percent surcharge was sufficient. However, Defense raised the charge to 3 percent on November 30, 1977, effective for all sales cases received after October 1, 1977. (See p. 72.)

--Numerous Defense audit reports and GAO reviews have noted severe deficiencies in Defense budgetary and financial records on foreign military sales matters. The deficiencies have resulted in a loss of integrity concerning the information from these records, and a lessening of congressional control over foreign military sales. Executive branch officials acknowledge that many of these problems seriously impair Defense management control, and they are taking actions aimed at correcting these deficiencies. (See p. 80.)

In the last few weeks of GAO's review, actual obligations data for fiscal year 1977 became available. There was another Defense obligation "short-tail"--actual obligations were less than the amounts

projected--although it was less than in preceding years. In the Defense--Military subfunction (051), 1977 actual direct obligations were 3.3 percent, or \$3.5 billion, less than the amount estimated prior to 1977 (the "budget year" estimate) and 3.4 percent, or \$3.7 billion, short of the amount estimated in 1977 after enactment of the Defense 1977 Appropriation Act (the "current year" estimate). This compared with shortfalls from current year estimates in fiscal years 1974-76 which ranged from 4 to 7 percent. The smaller shortfall in 1977 may have been due in part to Defense's new process for monitoring obligation performance. (See p. 41.)

RECOMMENDATION TO THE  
SECRETARY OF DEFENSE

The Department of Defense should make certain that the improvements they are making in their internal reporting provide for the systematic identification of amounts, for review by service and Office of the Secretary of Defense officials, which have become excess to program funding requirements. This would also permit timely reporting to the Congress of the amounts determined to be excess obligational authority. (See p. 63.)

The Department of Defense also should make certain that its new policies and procedures provide for closer monitoring of obligation projections by the Office of the Secretary of Defense, and more effective use of existing management reports and data on obligations, in order to improve obligation estimates and analyses of variances between estimates and actuals. (See p. 70.)

RECOMMENDATION TO THE OFFICE  
OF MANAGEMENT AND BUDGET

The Office of Management and Budget should monitor

the obligation rates reflected in Defense's obligation projections for procurement activities, with a view toward identifying possible misestimates, getting changes made or adding explanatory information to the budget, and if necessary, developing more detailed guidelines concerning estimating policies and procedures. The Office of Management and Budget should take a more active role to assure that the Congress will be provided the most accurate projections of obligations and unobligated balances, and the fullest explanations of major changes and variances from estimates. (See p. 63.)

RECOMMENDATIONS  
TO THE CONGRESS

GAO believes that the problems and issues noted in this review warrant certain congressional actions. GAO recommends that the Congress:

- Require that Defense provide historical and projected obligation rates, and analyses of variances between estimated and actual rates, in its budget requests for procurement activities. This would enable the Congress to better assess the Department's projections of obligations and unobligated balances. Obligation rates, for each appropriation title, should show the percentage of the requested funds that are projected for obligation in the first year, and the comparable first year obligation rates--actual and estimated--for the programs already funded and underway. Such information would permit the Congress to analyze the projections in light of prior experience, and to question Defense officials on the reasons projections deviated from actual experience and on the validity of current estimates. Congress may also want to require other agencies to provide similar information in their budget submissions. (See p. 110.)

- Give greater attention to the significant balances of budget authority carried over from year to year, in its analyses and decisions on budget levels--functional as well as individual accounts and programs. These balances comprise significant percentages of the available obligational authority in a fiscal year, and should now receive greater visibility and attention in the Congressional budget process. (See p. 111.)
- Review the Office of Management and Budget's plans and steps to strengthen their analyses of Defense's obligations estimates, especially Defense's policy and procedures for projecting first year obligations in their multiyear procurement accounts. (See p. 112.)
- Monitor the implementation of the practice of treating extensions of the availability of unobligated balances as new budget authority as agreed to in the conference report on the Second Concurrent Resolution on the Budget, Fiscal Year 1978. (See p. 117.)

#### AGENCY COMMENTS

At the request of the House Budget Committee Task Force on National Security and International Affairs, we did not obtain Defense Department or Office of Management and Budget comments on this report. However, we will provide report copies to these executive agencies after 5 days. Any comments received from them will be forwarded to the Task Force.

Defense officials attempt to minimize the significance of Defense's unobligated balances by comparing the Defense amount with the total for the Government. For example, in a recent communication on the matter, Defense stated

that " \* \* \* the end of fiscal year 1978 projected unobligated balances of \$217 billion for the total Government exceed those of Department of Defense by more than tenfold." This statement does not reflect the varying types of balances involved. If the projected Defense balances are compared with similar balances for other agencies (exclusive of those in trust fund, guarantee and insurance accounts), they amount to about 40 percent of the total.

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ABBREVIATIONS

ARRCOM	Army Armament Materiel Readiness Command
CNM	Chief of Naval Materiel
DOD	Department of Defense
ECO	Engineering Change Order
FMS	Foreign Military Sales
FRA	Funded Reimbursable Authority
FY	Fiscal Year
GAO	General Accounting Office
MAP	Military Assistance Program
NAVSEA	Naval Sea Systems Command
O&M	Operation and Maintenance
OMB	Office of Management and Budget
OSD	Office of the Secretary of Defense
RDT&E	Research, Development, Test, and Evaluation

SCA	Ship Cost Adjustment
TARCOM	Army Tank-Automotive Materiel Readiness Command
TOA	Total Obligational Authority
TQ	Transition Quarter

## CHAPTER 1

### INTRODUCTION

This analysis concerns Department of Defense (DOD) unexpended balances of budget authority. Budget authority essentially is "authority provided by law to enter into obligations which will result in immediate or future outlays involving Government funds \* \* \* ." <sup>1/</sup> In DOD procurement activities, the focus of this study, budget authority is used to enter obligations (contracts) with defense contractors.

Unexpended balances of DOD budget authority are composed of unobligated and obligated amounts. The former represent unused authority to enter obligations, while the latter consists of obligations which have not yet resulted in actual disbursements of funds (checks written). In this study, obligated balances are often referred to as "unliquidated obligations."

#### THE INCREASE IN BALANCES, FISCAL YEAR 1976 AND TRANSITION QUARTER

As seen in Table 1.1, total DOD unexpended balances <sup>2/</sup> --especially unobligated balances--rose gradually in the 1970s until fiscal year 1976 and the transition quarter (TQ) ending September 30, 1976. <sup>3/</sup> Unobligated balances grew from \$23.7 billion at the end of fiscal year 1975 to \$34.5 billion 1 year later, a 46 percent (\$10.8 billion) jump in 1 year. Three months later, at the end of the TQ, the unobligated balance was still high--\$31 billion.

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<sup>1/</sup> "Terms Used in the Budgetary Process," by the Comptroller General of the United States, July 1977, PAD-77-9, p. 6.

<sup>2/</sup> Total DOD administered funds include those in the DOD--Military budget subfunction (051), and the Military Assistance subfunction (052).

<sup>3/</sup> In this report, all balances cited are as of the end of the fiscal year, or transition quarter, unless otherwise specified.

Table 1.1

**SUMMARY OF DOD UNOBLIGATED & UNEXPENDED BALANCES**  
 (\$ BILLIONS)

	6/30/72	6/30/73	6/30/74	6/30/75	6/30/76	TQ 9/30/76	EST <sup>b/</sup> 9/30/77	EST <sup>b/</sup> 9/30/78	9/30/76 AS FORECAST IN JAN 1976
<b>UNEXPENDED BALANCES</b>									
FOREIGN MILITARY SALES	4.7	6.9	12.0	17.1	23.2	22.5	7.6	5.7	21.1
ALL OTHER PROGRAMS	37.5	41.2	46.9	46.5	54.1	52.8	62.4	72.2	49.7
<b>TOTAL, UNEXPENDED BALANCES</b>	<b>42.2</b>	<b>48.1</b>	<b>58.9</b>	<b>63.7</b>	<b>77.3</b>	<b>75.3</b>	<b>70.1</b>	<b>77.9</b>	<b>70.8</b>
<b>OBLIGATED BALANCES:</b>									
FOREIGN MILITARY SALES	2.9	4.7	4.4	6.0	6.5	7.5	6.9	5.0	12.5
ALL OTHER PROGRAMS	26.5	29.4	33.8	34.0	36.3	36.8	46.2	54.2	40.5
<b>TOTAL, OBLIGATED BALANCES</b>	<b>29.4</b>	<b>34.1</b>	<b>38.2</b>	<b>39.9</b>	<b>42.8</b>	<b>44.3</b>	<b>53.0</b>	<b>59.1</b>	<b>53.0</b>
<b>UNOBLIGATED BALANCES:</b>									
FOREIGN MILITARY SALES	1.8	2.2	7.6	11.2	16.7	14.9	.8	.8	8.6
ALL OTHER PROGRAMS	11.0	11.8	13.1	12.6	17.8	16.1 <sup>a/</sup>	16.3	18.0	9.2
<b>TOTAL, UNOBLIGATED BALANCES</b>	<b>12.8</b>	<b>14.0</b>	<b>20.7</b>	<b>23.7</b>	<b>34.5</b>	<b>31.0</b>	<b>17.0</b>	<b>18.8</b>	<b>17.8</b>

<sup>a/</sup> OF WHICH \$5.0 BILLION WAS COMMITTED.

<sup>b/</sup> Estimated in January 1977, in the President's budget for fiscal year 1978.

Note: Amounts are for all DOD-administered funds, including those in the Department of Defense--Military budget subfunction (051), and the Military Assistance subfunction (052).

Source: Department of Defense table.

## EXECUTIVE MISESTIMATES OF BALANCES

The sharp increase in 1976 and TQ unobligated balances was preceded by executive branch forecasts of far smaller balances. As late as January 1976, in the President's budget for fiscal year 1977, the executive branch projected a TQ unobligated balance of only \$17.8 billion (See Table 1.1)--the actual balance, 9 months later, was \$31 billion.

This underestimate of the unobligated total related to a multibillion dollar overestimate of total DOD obligations (direct and reimbursable). The following figures show the January 1976 projections for fiscal periods 1976 and TQ, compared with the actuals 6 to 9 months later--fiscal year 1976 ended June 30, 1976; the TQ ended September 30, 1976:

### Total DOD Obligations

	<u>1976</u>		<u>TQ</u>
		(billions)	
January 1976 projection	\$145.7		\$34.6
Actual	132.3		32.6
Actual shortfall from projection	13.4		2.0

### DOD concern

DOD officials, in internal correspondence, noted at an early date the significance of the 1976 and TQ sharp increase in DOD unobligated balances. Deputy Secretary Clements stated the following in a September 1976 memorandum to the services and defense agencies:

"I am deeply concerned about continuing delays in executing Defense programs. For instance, as a percent of availability, FY 1976 obligations in the procurement accounts were well below FY 1975. Unobligated balances are up significantly.

"We must minimize the further impact of inflation by getting programs under contract and achieve as early as possible the readiness improvements contemplated in approved programs. Whatever is not obligated promptly will buy less later, will bring programs and our management of them under criticism, and will jeopardize the credibility of future requests. Contracting workload backlogged during FY 1976 and the Transition Quarter must be cleared away to avoid delays in executing FY 1977 programs."

#### Congressional concern

Concern over the 1976 and TQ growth in DOD unexpended balances and the obligations shortfall was also expressed by several members of the Congress during hearings on the DOD Appropriations Bill for fiscal year 1978. The following statement, addressed by a member of the House Committee on Appropriations to the Assistant Secretary of Defense (Comptroller), was one of several such expressions of congressional concern: 1/

"Recently, the Department of Defense has experienced disturbing increases in its unobligated balance; that is, available funds uncommitted by contract. For fiscal year 1976, for instance, the DOD carried \$23.7 billion in unobligated balances into the fiscal year and ended the year with \$34.5 billion in unobligated balances. This occurred during a year in which the Congress, in the words of then Secretary of Defense Schlesinger, had made 'deep, savage, and arbitrary' cuts in the budget request.

\* \* \* \* \*

"Despite the significance of the foreign military sales transactions, which may explain as much as one-third of the unforeseen increase in unobligated balances, questions also arise regarding the management of procurement programs by the DOD and in respect to the ability of the Department to absorb the large increases in funding granted in fiscal year 1977 and proposed for fiscal year 1978.

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1/ "Department of Defense Appropriations for 1978," hearings before Subcommittee on the Department of Defense, House Committee on Appropriations, 95th Congress, 1st session, Part 1, p. 119.

"Please explain the large increases in unobligated funds which the Department of Defense experienced during fiscal year 1976."

Similarly, members of the House and Senate Budget Committees expressed interest in DOD unexpended balances, and requested this report on the subject.

BRIEFING DOCUMENT, SEPTEMBER 1977

We provided a briefing document to members of the Budget Committees in September 1977, in which we presented overview data on trends in DOD balances. We also provided testimony at a hearing (Sept. 27, 1977) on the subject before the Task Force on National Security and International Affairs, House Committee on the Budget. The following were among the matters we discussed in September 1977:

- In the DOD--Military budget subfunction (051), <sup>1/</sup> one area has consistently accounted for more than 70 percent of the unobligated total: procurement, with \$14.8 billion, unobligated at the end of the TQ, including \$3.8 billion for foreign military sales (FMS).
- Contributing most to the 1972-TQ growth in total DOD unobligated balances was the increase in FMS balances:
  - FMS balances grew 727 percent (\$13.1 billion).
  - Non-FMS balances grew 46 percent (\$5.1 billion).

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<sup>1/</sup> This subfunction contained 95 percent (\$97.7 billion) of DOD's total budget authority in fiscal year 1976. DOD's other subfunction, Military Assistance (052), contained 5 percent of the budget authority (\$6.3 billion).

- DOD, effective for fiscal year 1977, began to record FMS budget authority to correspond to FMS obligations rather than approved FMS orders. At the same time, DOD wrote off about \$13 billion (estimate) in FMS unobligated balances. DOD officials state that because of these changes, there will be few, if any, FMS unobligated balances in the future.
- Our audits and those of DOD have ascertained that there are numerous budgeting, accounting, and management record deficiencies which impede effective DOD management of FMS activities.
- There have been significant DOD misestimates in projecting obligations and unobligated balances. In DOD--Military subfunction (051), direct obligations were overestimated for five out of six fiscal periods during 1972-TQ--overestimates averaged \$4.3 billion.

ISSUES ADDRESSED  
IN THIS REPORT

Our earlier work was intended to provide overview information on basic trends (1972-TQ) in DOD unexpended balances, and certain related budgetary processes. This report will provide more detailed information on key areas of the matter. The following are the subjects addressed in this report:

- Reasons for the growth in DOD non-FMS procurement unobligated balances: program growth and/or obligation rate decline?
- Recent executive branch processes for projecting obligations: obligation plans, monitoring, recoupments.
- Budget and financial reporting on FMS amounts. Our more detailed analysis of the recent budget authority change is to be issued in another report.
- DOD staffing and the growth of unobligated balances.
- DOD contingency estimates.



## OTHER MATTERS

It should be noted that we have a separate study underway of unexpended balances in the civil agencies of the Federal Government. Officials of DOD have stressed that DOD balances should be put in perspective by comparing them with civil agency balances. In a recent communication on the matter, a DOD official stated that " \* \* \* the end of FY 1978 projected unobligated balances of \$217 billion for the total Government exceed those of the Department of Defense by more than tenfold."

While the preceding statement seems to show DOD as having a very minor part of unobligated balances, it does not reflect the varying types of balances involved. Of the \$219.9 billion unobligated estimate for fiscal year 1978, 1/ \$137.8 billion pertains to civil trust fund accounts including such accounts as the Civil Service Retirement and Disability Fund and the Federal Old Age and Survivor Insurance Trust Fund. Of the remaining \$82.1 billion, \$19.4 billion, 2/ or 24 percent, are DOD balances.

Excluding from the \$82.1 billion the \$35 billion estimate for civil guarantee and insurance programs, for which appropriations and other budget authority are provided for contingency, backup, reserves, and debt reduction, DOD balances become about 40 percent of the remaining unobligated balances. These DOD balances are primarily in the categories of procurement programs and research and development programs. Estimates for fiscal year 1978 indicate that DOD will make up 100 percent of the unobligated balances in Government procurement programs and 99 percent of balances in the research and development category. \*Civil procurement programs

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1/ Estimate in the Office of Management and Budget's "Balances of Budget Authority," Jan. 1977.

2/ This summary DOD figure excludes (1) balances of less than \$20 million (the estimate for Government-wide Federal fund balances of less than \$20 million is \$489 million) and (2) small amounts potentially categorized under Other Agencies under the primary categories.

can be expected to develop unobligated balances in the future if they are put on a "full funding" basis like DOD procurement. Full funding is discussed in Chapter 2.

We further note that the findings in this report are based upon unverified DOD data. The necessity of starting and completing our fieldwork and analysis within 6 months, coupled with the magnitude and complexity of DOD activities, did not permit a verification of the information. DOD military activities account for 25 percent (\$121.7 billion) of the estimated total Government budget authority for fiscal year 1978, and 37 percent (921,200 employees) of total full-time permanent civilian employees in the executive branch.

## CHAPTER 2

### REASONS FOR GROWTH IN UNOBLIGATED BALANCES

#### CHAPTER SUMMARY

- GAO did not find evidence that the buildup in direct unobligated balances for Defense's own procurements (excluding those for foreign military sales) between July 1, 1972, and September 30, 1976, represented a Defense inability to perform its programs. However, contractor production difficulties in the Army's M-60 tank program have led to a backlog of unfilled orders--program managers estimated that approximately 216 tanks costing \$130 million will not be delivered as planned in calendar year 1977. Army officials may be overly optimistic in projecting that the backlog will be overcome by March 1979. (See p. 68.)
- Full funding, often cited by Defense officials in explanations of Defense unobligated balances; does not explain the \$5.5 billion growth (fiscal years 1973-77) in the balances in procurement accounts for Defense's own acquisitions. The "stacking up" effect of this funding procedure, involving at any one time balances from several program year appropriations produced a growth in unobligated balances prior to fiscal year 1973. After then, increases in balances should be examined and explained in terms of program growth and/or a fall-off in obligation rates. 1/ (See p. 13.)
- Most (93 percent) of the \$5.5 billion increase in Defense's own procurement unobligated total fiscal years 1973-77 was due to program growth--i.e., increasing funding levels--rather than an obligation rate decline. However, this total is a net figure reflecting divergent patterns over 1973-77 in 14 procurement accounts. In the 1975-77 period, 10 of the 14 accounts experienced increases in balances due to a

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1/ Rate=obligation as a percentage of total funds available for obligation.

decline in obligation rates from 1975 levels. These 10 accounts experienced a \$2.7 billion growth in direct program unobligated balances, of which \$1.1 billion (41 percent) was due to an obligation rate decline. (See p. 16.) The 10 accounts, and their 1975 to 1977 obligation rate (percentage point) decreases, are:

--Weapons--Navy:	15.7
--Marine Corps:	15.6
--Ammunition--Army:	9.8
--Other--Army:	9.7
--Weapons and Tracked Combat Vehicles -- Army	4.4
--Aircraft--Navy:	3.9
--Aircraft--Army:	2.2
--Other--Air Force:	1.3
--Other--Navy:	.8
--Missiles--Air Force:	.1

--The 1976 fall-off in Defense procurement obligation rates probably related more to the sizable appropriation increase for 1976, 23 percent, and the problems of absorbing such an increase, than to the lateness of the 1976 Defense Appropriation Act. Defense may have the potential for absorbing and efficiently obligating appropriation increases of this magnitude after an initial adjustment period.  
(See p. 20.)

--GAO's review of 32 selected weapons systems, ammunition commodities, and aircraft modification programs, over the period from July 1, 1971, through September 30, 1976, revealed a variety

of apparent reasons for identified decreases in Defense procurement direct program obligation rates. These reasons, listed below, cannot be readily generalized to the entire Defense budget or the entire procurement area. (See p. 21.)

- Delay in awarding contracts.
- Technical, planning, and production problems.
- Reserves.
- Funds withheld from program managers.
- Congressional actions.
- Better contract prices than budgeted for.
- Staffing deficiencies (limited cases).
- Invalid obligations.

FOCUS ON PROCUREMENT  
BALANCES

Our earlier work identified DOD's procurement accounts as the ones with the largest share of the DOD--Military sub-function's (051) unobligated total--70 percent (\$14.8 billion, including \$3.8 billion FMS) at the end of the TQ. We therefore focused upon the DOD's 14 procurement accounts in our followup effort to develop information on the reasons for the growth in DOD unobligated balances. Furthermore, our analysis concentrated on the non-FMS procurement balances, because (1) such balances pertain to the budget authority appropriated by the Congress, and (2) budget concepts changes eliminated most FMS procurement unobligated balances, effective fiscal year 1977 (down to an estimated \$610 million).

Trends in procurement non-FMS balances are seen in Table 2.1. It is noted that unobligated balances grew from approximately \$6.9 billion at the end of fiscal year 1972 to \$11 billion at the end of the TQ, with the biggest increase in that period occurring in 1976--a \$3.2 billion jump. As already stated in chapter 1, this jump in 1976 prompted congressional inquiries concerning the reasons for the growth in DOD balances in recent years, particularly 1976.

Table 2-1  
 DOD/MAP Unexpended Balances Excluding FMS,  
 End of Fiscal Year, 1972-78  
 (\$ Billions)

	6/30/72	6/30/73	6/30/74	6/30/75	6/30/76	9/30/76	9/30/77 (note a)	Estimate 9/30/77 (note a)	Estimate 9/30/78 (note a)
<b>Obligated balances:</b>									
Military personnel:									
Retired pay	624	490	1,204	920	1,049	1,045	1,041	1,041	1,231
O&M	14	16	34	32	34	32	36	36	38
Procurement	1,947	3,015	4,495	4,498	4,685	5,350	6,419	6,419	7,048
RDT&E	17,039	17,842	18,493	18,656	20,782	21,543	29,755	29,755	39,732
Military construction	3,605	3,366	3,117	2,840	3,075	3,214	3,941	3,941	4,559
Family housing	1,083	1,415	1,312	2,029	2,061	2,024	2,105	2,105	1,674
Civil defense	276	385	522	579	621	782	644	644	580
Special foreign currency	46	51	54	50	47	53	59	59	56
Industrial funds	4	9	8	6	4	4	5	5	5
Stock funds	-988	-932	-917	-723	-1,018	-1,435	-1,582	-1,582	-1,913
Other revolving & mgt. funds	1,711	1,513	2,756	2,674	2,781	2,826	2,522	2,522	2,478
Pay raises/legislation	23	25	1	19	20	-6	-7	-7	-9
Trust funds	-	-	-	-	-	-	-	-	59
Total, military functions	24,593	27,854	30,611	31,420	34,153	35,466	44,998	44,998	54,573
MAP	1,618	1,530	3,197	2,536	2,163	1,244	1,166	1,166	1,208
Total, obligated balances	26,211	29,385	33,808	33,956	36,316	36,711	46,163	46,163	55,780
<b>Unobligated balances:</b>									
Military personnel:									
Retired pay	1	1	-	-	157	-	-	-	-
O&M	66	104	35	23	573	153	-	-	-
Procurement	6,870	7,716	8,837	8,948	12,093	11,041	11,200	11,775	14,153
RDT&E	519	315	361	331	623	666	395	395	436
Military construction	1,527	1,412	1,652	1,440	1,750	1,482	1,557	1,557	1,315
Family housing	329	449	521	489	477	282	206	206	41
Civil defense	4	4	5	1	2	8	-	-	-
Special foreign currency	21	9	5	3	3	2	2	2	1
Industrial funds	1,419	1,640	1,566	1,283	1,752	2,238	2,223	2,223	2,690
Stock funds	152	54	17	18	-	-	-	-	-
Other revolving & mgt. funds	23	27	51	40	20	18	17	17	17
Trust funds	36	46	29	40	56	64	93	93	101
Total, military functions	10,984	11,778	13,119	12,577	17,536	15,947	16,254	16,254	18,763
MAP	2	9	5	12	271	111	12	12	9
Total, unobligated balances	10,987	11,787	13,124	12,589	17,807	16,058	16,271	16,271	18,803
Unexpended balances	37,497	41,169	46,932	46,545	54,123	52,819	62,434	62,434	74,582

a/Estimated in January 1977, in the President's budget for fiscal year 1978.

b/Represents \$12.8 billion actual direct unobligated balances as provided by DOD services and \$0.4 billion estimated (by us) non-FMS reimbursable unobligated balances.

Source: Department of Defense table.

The table also shows that there was another increase in procurement non-FMS unobligated balances in fiscal year 1977--a \$1.2 billion increase bringing the total to \$13.2 billion. 1/

MULTIYEAR FULL FUNDING  
AND UNOBLIGATED BALANCES

Between 1951 and 1957, most DOD procurement activities were put on a full funding basis. Under this approach, the Congress has provided budget authority each year which is intended to cover the full cost of the "end items" being funded (a certain number of completed aircraft, tanks, etc.). Full funding thus contrasts with incremental funding, under which successive Congresses provide budget authority installments covering portions of the given end items' total cost.

Full funding has been justified as a means of providing the Congress full disclosure of the total cost for a given number of end items when first presented for congressional funding action. In a 1969 report (B-165069, Feb. 17, 1969), we reached the following conclusions:

- We found that the initial cost estimates which the military services used to support their budget line item requests took into account the best information available to them at that time.
- We believe that the full funding concept has encouraged personnel to be conscious of the importance of cost estimating and of the need to include all applicable costs in budget line item requests.

Beginning with fiscal year 1972, DOD procurement accounts were shifted by appropriations action from a no-year to a three-year full funding basis (5-year for Navy

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1/ The \$13.2 billion total is based upon figures provided by the DOD services. It represents (1) \$12.8 billion in actual direct program unobligated balances as reported to GAO in November-December, 1977, plus (2) \$.4 billion estimated (by GAO) non-FMS reimbursable (inter-service) unobligated balances. As of December 23, 1977, DOD did not have an actual figure on non-FMS reimbursable unobligated balances.

shipbuilding activities). This limited each appropriation's (budget authority) period of availability for new obligations to 3 years (or 5). It should be added that with multi-year availability of budget authority, there is no requirement that all of the authority be obligated in the first year. Unobligated balances are carried forward for use until the end of the third year (fifth year for shipbuilding), at which time any balance expires for purposes of making new obligations. 1/

DOD officials frequently cite the full funding practice when discussing DOD unobligated balances. For example, when asked to explain a projected growth in DOD non-FMS unobligated balances, the Assistant Secretary of Defense (Comptroller) stated the following in February 1977 before the Subcommittee on the Department of Defense, House Committee on Appropriations:

"I think you only need glance at the chart to see that it [unobligated non-FMS balances] occurs in large measure in the procurement title. The procurement title is the area where Congress, for many, many years has chosen to authorize and appropriate our funds on the so called full-funding basis. If we had \$2 billion for a carrier, Congress provides the full \$2 billion in the year the initial contract is to be awarded even though the complete contractual activity may extend over a period of 4 or 5 years. Congress has recognized this by providing an appropriation with a 5-year life for obligation purposes for shipbuilding and a 3-year life in all of the other procurement areas. We will find as long as we have full funding there will undoubtedly be unobligated balances in the procurement title at the end of a given fiscal year." 2/

DOD officials further state, in discussing unobligated balances under full funding:

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1/ The expired balance is withdrawn to a surplus account in the Treasury and remains available for restoration to effect adjustments.

2/ "Department of Defense Appropriations for 1978," hearings before the Subcommittee on the Department of Defense, House Committee on Appropriations, 95th Congress, 1st session, Part 1, p. 99.



" . . . it simply would be impracticable to attempt to obligate all the funds for a given weapon in the first year. Some of the components have relatively short lead-times. It would not make sense to order them, pay for them, and hold them in inventory long before they were needed. Technical and costs factors are such that better results can be obtained by deferring contracting to the point dictated by lead-time." 1/

MULTIYEAR FULL FUNDING IS NOT  
A BASIS FOR EXPLAINING CONTINUED  
GROWTH IN UNOBLIGATED BALANCES

It is correct that there normally is an unobligated balance carried forward each year in DOD accounts financed by multiyear full funding. However, this funding procedure does not explain the \$5.5 billion growth in procurement non-FMS balances over the fiscal year 1973-77 period. The "stacking up" effect of full funding, involving at any one time balances from several program year appropriations, produced an automatic growth in unobligated balances 2/ prior to fiscal year 1973. After then, increases in balances should be examined and explained in terms of program growth and/or a fall-off in obligation rates.

PROGRAM GROWTH EXPLAINS  
MOST OF THE INCREASE IN  
UNOBLIGATED BALANCES

DOD officials also state that the growth in the procurement non-FMS unobligated total during the 1970's has been " \* \* \* well within program trends"--i.e., the increase in unobligated balances reflects the increase in appropriation levels over the years, and not an increasing DOD inability to obligate funds. The implication is that annual obligation rates (obligations as a percentage of total funds available for obligation) have not decreased.

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1/ "Department of Defense Appropriations for 1978," hearings before the Subcommittee on the Department of Defense, House Committee on Appropriations, 95th Congress, 1st session, Part 1, p.11.

2/ Growth in dollars unobligated, and dollars unobligated as a percent of total available for obligation.

Our review indicates that program growth accounts for most, but not all, of the 1973-77 growth in the procurement non-FMS unobligated total--about 93 percent (\$5.1) of the \$5.5 billion growth. The DOD obligated approximately 68 percent of its available procurement non-FMS funds in 1973, and 67 percent in 1977.

OBLIGATION RATE DECREASES  
1976-77

More importantly, these totals reflect the net experience of several procurement accounts (14 in fiscal years 1975 through 1977), and obscure the fact that within the procurement area there have been recent obligation rate fall-offs affecting most (10) procurement accounts. The accounts which experienced an increase in direct unobligated balances in 1976 due to an obligation rate decline from 1975 rates are listed in Table 2.2. They are listed in order of obligation rate decline.

The figures in Table 2.2 for 1976 are under a column headed "1976-TQ". We calculated the ending balances and rates for the programs operating in 1976 1/ as the end of the TQ, 3 months after the close of 1976, in order to correct for the fact that the 1976 DOD Appropriation Act was enacted 1 to 4 months later than the 1974 and 1975 DOD appropriations. The table also shows the experience of the same accounts in fiscal year 1977.

It may be seen that the 1976-TQ direct obligation rate decreases in the 10 accounts ranged from a 7.2 percentage point decline (Weapons--Navy) to a .1 percentage point decline (Aircraft--Army). In total, these drop-offs in rates accounted for \$371 million (total, column 5) of the \$880 million (total, column 4) increase in direct program unobligated balances over the 1975 ending balances. Furthermore, our analysis of the same accounts in fiscal year 1977 shows that each account experienced a continued rate decline, when compared with its 1975 rate. Also, most 1977 rates were below the 1976-TQ levels. This 1977 decline is noteworthy in light of the fact that the 1977 DOD Appropriation Act was enacted prior to the beginning of the fiscal year--the first on time DOD appropriation in the fiscal year 1972-77 period. This development in 1977 is discussed further in chapter 3.

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1/ In the 3-year accounts, the programs operating in 1976 were the 1974/76 program, 1975/77 program, and 1976/78 program.

Table 2.2

Procurement Accounts and Obligation Rate Changes, 1976-T.Q.: Direct Program  
(Millions)

Accounts With Obligation Rate Decreases:	FY 1975	Fiscal Year 1976-T.Q.			Fiscal Year 1977				
	Unobligated (1)	Obligation rate change from FY 1975 (2)	Unobligated (3)	Change in unobligated over FY 1975 (4)	Increase over FY 1975 due to obligation rate decline (5)	Obligation rate change from FY 1975 (6)	Unobligated (7)	Change in unobligated over FY 1975 (8)	Increase over FY 1975 due to obligation rate decline (9)
Weapons--Navy	\$ 208	-7.2	\$ 408	\$200	\$ 99	-15.7	\$ 1,034	\$ 826	\$ 426
Weapons and Tracked Combat Vehicles--Army	57	-6.7	184	127	65	-4.4	244	187	65
Ammunition--Army	105	-3.2	189	84	35	-9.8	307	202	128
Other--Army	184	-2.4	302	118	29	-9.7	611	427	181
Aircraft--Navy	748	-1.8	795	47	66	-3.9	1,021	273	170
Other--Navy	383	-1.3	467	84	30	-.8	651	268	26
Other--Air Force	401	-1.2	537	136	30	-1.3	685	284	39
Missile--Air Force	427	-.7	489	62	15	-.1	515	88	2
Marine Corps	78	-.4	79	1	1	-15.6	171	93	71
Aircraft--Army	53	-.1	75	22	1	-2.2	136	83	15
Subtotal	<u>2,644</u>		<u>3,525</u>	<u>881</u>	<u>371</u>		<u>5,375</u>	<u>2,731</u>	<u>1,123</u>
Accounts With Obligation Rate Increases:									
Aircraft--Air Force	1,302	8.4	1,254	-48	N/A	9.6	1,734	432	N/A
Defense Agencies	36	8.2	52	16	N/A	-8.1	73	37	16
Ships--Navy	3,502	5.2	3,500	-2	N/A	-4.1	5,531	2,029	396
Missile--Army	112	2.3	87	-25	N/A	9.9	500	-62	N/A
Subtotal	<u>4,952</u>		<u>4,893</u>	<u>-59</u>	<u>N/A</u>		<u>7,388</u>	<u>2,436</u>	<u>412</u>
TOTAL	<u>\$7,596</u>		<u>\$8,418</u>	<u>\$822</u>	<u>\$371</u>		<u>\$12,763</u>	<u>\$5,167</u>	<u>\$1,535</u>

The four DOD procurement accounts which did not experience a direct program obligation rate decline in 1976-TQ are the following:

--Missiles--Army

--Shipbuilding and Conversion--Navy 1/

--Aircraft--Air Force

--Defense Agencies 1/

This varying obligation rate pattern for the 14 procurement accounts makes it essential to examine each account when analyzing trends in DOD procurement unobligated balances. It is noted that two of the accounts which showed no obligation rate decline in 1976-TQ (Shipbuilding and Conversion--Navy; and Aircraft--Air Force) together accounted for \$4.8 billion (57 percent) of the \$8.4 billion direct unobligated total for the 14 accounts, 1976-TQ. 2/

Beyond identifying the procurement accounts with obligation rate decreases in fiscal year 1976-TQ, our analysis examined 32 selected procurement weapons systems, ammunition commodities, and aircraft modification programs 3/ in order to identify items with obligation rate decreases in recent years, and explanations for the decreases in those items. Table 2.3 shows the 10 items which we identified as having 1976-TQ obligation rate declines (from 1975 rates), and the portion of the 1976-TQ unobligated balance increase due to the rate decline.

Fiscal year 1977 data are also presented in Table 2.3. It is noted that 7 of the 10 items in 1977 continued to experience increases in unobligated balances (over 1975) due to obligation rate declines (from 1975).

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1/ Experienced a rate decline, from 1975 rate, in 1977.

2/ As in Table 2.2, the "1976-TQ" amounts exclude amounts pertaining to the separate appropriation for the TQ.

3/ Selected primarily because of relatively large unobligated balances, June 30, 1976.

Table 2.3  
Procurement Weapon Systems With Obligation Rate Decreases, 1976 TQ: Direct Program  
(Millions)

Weapon system	Fiscal Year 1975	Fiscal Year 1976 - TQ			Fiscal Year 1977		
	Unobligated	Unobligated	Increase Over 1975	Amount of increase due to rate decline from 1975 (percent)	Unobligated	Increase over 1975	Amount of increase due to rate decline from 1975 (percent)
<u>Army</u>							
Fuze, proximity for artillery and 4.2" mortar	\$ 12.0	\$ 24.7	\$ 12.7	\$ 12.7 (100)	\$ 3.3	\$ -8.7	-
Hawk missile system	9.2	18.2	9.0	8.9 (98.9)	3.4	-5.8	-
M113A1 vehicles	.8	10.8	10.0	3.5 (35.0)	46.3	45.5	\$ 23.4 (51.5)
Tube launched optically tracked wire command link guarded missile	5.8	9.8	4.0	4.0 (100)	10.0	4.2	4.2 (100)
<u>Navy</u>							
Patrol hydrofoil missile	95.0	232.4	137.4	36.5 (26.6)	271.9	176.9	48.9 (27.6)
Trident	582.5	794.7	212.2	212.2 (100)	1118.2	536.4	175.4 (32.7)
<u>Air Force</u>							
A-10 aircraft	27.2	92.7	65.5	29.7 (45.3)	153.9	126.7	-
B-3A aircraft	7.4	152.1	144.7	144.7 (100)	190.4	183.0	148.0 (80.9)
Modifications of in-service aircraft	331.8	348.2	16.4	7.1 (43.3)	384.3	52.5	-
Tactical air control systems improvement	14.7	20.7	6.0	3.5 (58.3)	8.6	-6.1	-

REASONS FOR OBLIGATION  
RATE DECREASES

In an October 1976 memorandum to the President, the Director of the Office of Management and Budget (OMB) stated that in fiscal year 1976 and the TQ " \* \* \* [DOD] procurement contracts were not awarded as rapidly as expected." The OMB Director explained that "it appears that Defense did not adjust planning rates to take into account the effect of late 1976 appropriations and the sizeable (23 percent) increase in procurement appropriations." The following shows DOD procurement budget authority in recent years:

--1974, \$17 billion  
--1975, 16.7 billion  
--1976, 21 billion  
--1977, 28 billion

The late 1976 appropriation was  
probably not the major factor

We doubt that the lateness of the 1976 appropriation 1/ was the prime factor for most DOD procurement accounts. As noted earlier, we identified 10 accounts which experienced obligation rate decreases (from 1975 rates) even when the 1976 rates were adjusted to reflect an extra 3 months of obligations (July-Sept. 1976). Furthermore, 1977 obligation rates in these accounts remained below 1975 rates--and also below 1976-TQ rates in most cases--even though the 1977 DOD Appropriation Act was enacted 3 months earlier in the budget cycle than was the case in 1975. 2/

For the above reasons the OMB Director's statement about the size of the 1976 appropriation, and its effect

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1/ February 9, 1976, compared with October 8, 1974, for the 1975 appropriation; and January 2, 1974, for the 1974 appropriation.

2/ The DOD 1977 Appropriation Act was enacted on September 22, 1976, prior to the beginning of the fiscal year, while the 1975 Act was enacted 3 months into the fiscal year--on October 8, 1974.

on obligations, probably is a more valid general explanation. However, this does not necessarily mean that DOD lacks the capacity to absorb and efficiently obligate a 23 percent increase in their procurement budget. Indeed, we did not find evidence that the buildup in recent years in DOD procurement unobligated balances represented a DOD inability to eventually perform congressionally mandated programs. We did, however, find certain contractor problems in the Army's M-60 tank procurement program.

#### Our review of 32 systems

Our review of reasons for DOD procurement obligation rate fall-offs (leading to increased unobligated balances) in recent years (1972-TQ) entailed a study of 32 DOD procurement-stage weapons systems, ammunition commodities, and aircraft modification programs, in the three services. It must be noted that the reasons, identified in Table 2.4 and discussed below, apply to the 32 programs and should not be projected as reasons for obligation rate decline in other programs or for other years. 1/ Further, the reasons cited are reasons as of a specific date in time--the last day of a fiscal year. Budget and program information on a system at the end of the fiscal year does not give a complete picture of the flow of events leading up to that date, or after. 2/

The reasons listed below are largely based on unverified information provided by DOD officials. Time constraints did not permit a more in-depth analysis.

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- 1/ Other reasons not identified here may be equally or more important in the obligation rate trends for the entire procurement area. It would be unfounded to project the reasons discussed in this report to other programs, to account totals, or the procurement area as a whole.
- 2/ The Army's Hawk missile system at June 30, 1976, had an unobligated balance of \$35.9 million, up from \$9.5 million at June 30, 1975. However, this \$35.9 million was reduced by \$24.7 million on July 6, 1976, 3 working days after the close of the fiscal year, by a contract award.





Delay in awarding contract

The affected systems, 1976-TQ were:

- The tube-launched optically tracked, wire command link guided missile system (Army).
- Patrol hydrofoil missile (Navy).
- Trident (Navy).
- E-3A aircraft (Air Force).
- Modifications of in-service aircraft (Air Force).
- Tactical air control systems improvement (Air Force).

The fiscal year ending without contracts being awarded appears to have been a reason for obligation rate drop-offs in 14 of the programs studied. There were three major reasons for this delay. First, definitization of the contract slipped past the end of the fiscal year. For example, in the Trident program, in program year 1974, only 23 percent of an appropriation of \$652.6 million was obligated due to a delay in the hull contract award for the lead ships. The award was made on July 25, 1974, for \$285 million or 44 percent of the fiscal year 1974 appropriation. Had the award been made in fiscal year 1974, Trident would have had a first year obligation rate of 67 percent.

Second, balances were purposely combined with the next fiscal year's funds so that procurement could be combined. In the FFG Guided missile frigate program, the entire 1975 appropriation was unobligated at June 30, 1975. A three ship program had been approved by the Congress, but since a three ship program was not attractive to ship builders, project officials elected to delay the award of the 1975 ships until the 1976 ships could be awarded simultaneously.

Third, the Navy's periodic full solicitation process was a factor. In the SSN-688 submarine program, the length of time required for a full solicitation process plus negotiation for the ship contract normally delayed the award of the contract until the second year. This

was reflected in the large unobligated balances in the first year of the fiscal year 1973 and 1975 programs. Full solicitation occurred every other year. In the "off" years, options were used for effecting contracts--a relatively quick process that did not affect obligation rates.

Technical, planning, and  
production problems

The affected systems, 1976-TQ, were:

- Fuze proximity for artillery and 4.2" mortar (Army).
- Patrol hydrofoil missile (Navy).
- Modifications of in-service aircraft (Air Force).

Obligation rates also declined because of slippages in research, development, and production schedules. For example, these problems reduced the obligation rates in the Air Force's aircraft modification program. One such modification was the Wild Weasel, an F-4 modification budgeted at \$59.8 million in fiscal year 1976. At the end of fiscal year 1976, only \$2.8 million had been obligated, and Air Force officials said that the activity was behind schedule because of technical problems experienced during the research and development phase.

Reserves

The affected systems, 1976-TQ, were:

- Fuze proximity for artillery and 4.2" Mortar (Army).
- M113A1 vehicles (Army).
- Projectile 155 MM, HE ICM (Army).
- E-3A aircraft (Air Force).

An obligation rate decline due to holding an increased amount of obligation authority in reserve status was found in eight of the programs studied.

For example, the M113A1 armored personnel carrier program had an unobligated balance of \$19.9 million in the direct account at September 30, 1976, (the unobligated balance was \$0.9 million at June 30, 1975). Of this \$19.9 million, \$15.7 million was in reserve for price escalation, engineering change orders, and administrative support (up from reserves of \$.4 million at June 30, 1975)

Our review found that unobligated reserves were used primarily to cover the following contingencies:

- Anticipated engineering changes.
- Price escalation.
- Additional contract costs and fees.
- Support contracts.
- Unapplied (see chapter 4).

Some reserves represent excess funds which could be reprogramed or used to reduce future budget authority requirements. (see p. 37.)

#### Funds withheld from program managers

The affected system, 1976-TQ, was the patrol hydrofoil missile (Navy). Obligation rates sometimes fell because project managers had obligational authority withheld by higher DOD levels--either the Office of the Secretary of Defense (OSD) or the services' headquarters. In the helicopter-mounted mine system, the Department of the Army withheld authority to obligate the 1976 funds, and in the TQ eliminated the program while awaiting development of a new system.

Other funds were temporarily withheld because of slippages in work to be completed before a decision to award the contract. In fiscal year 1976, funds for the production of 23 aircraft in the Air Force A-10 aircraft program were held up pending a final decision by the Defense System Acquisition Review Council to

proceed with full-scale production. That review was delayed 6-9 months because of delays in delivery of the research and development phase aircraft which had to be tested before the production decision could be made. Approval to procure the remaining 23 aircraft was not given until February 11, 1976, leaving only 4 months availability for obligation during the first fiscal year.

#### Congressional actions

The affected system, 1976-TQ, was the E-3A aircraft (Air Force). After an appropriation has been assigned, it can still be affected by congressional actions. We identified two such actions made by the Congress. First, Congress changed the level of procurement in the Air Force's E-3A program. In 1976, the Congress originally approved the Air Force request to purchase six aircraft for the program. Subsequently, the Congress authorized the procurement of only four aircraft, causing new negotiations to be undertaken and an unobligated balance of \$129.7 million.

Second, a congressional prohibition led to a significant obligation rate fall-off for the U.S. Army Armament Materiel Readiness Command at June 30, 1975, (\$50.7 million of obligation authority being withheld). The prohibition was part of an amendment (Public Law 93-559) to the Foreign Assistance Act of 1961. The amendment prohibited obligations to stockpile munitions and other items if earmarked for use by a foreign country. According to the Department of the Army, the prohibition affected \$53.6 million in unobligated balances for five items in our review and almost \$178 million for all ammunition items because they were designated in program year 1975 as war reserve for selected allies. The following list identifies the five items, the unobligated balance in 1975 as identified by the Department of the Army, and the obligational authority withheld at June 30, 1975.

	Unobligated balance (millions)	Obligation authority withheld (millions)
4.2" cartridge illum	\$11.3	\$11.3
4.2" cartridge--HE	4.2	4.2
4.2" Fuze--Prox	8.7	8.7
4.2" Fuze--PD	9.4	4.5
155 mm. projectile--ICM	<u>20.0</u>	<u>20.0</u>
Total	\$53.6 =====	\$50.7 =====

Army withheld the authority until it decreased the program or reclassified the item as no longer designated for war reserve.

Better contract prices than budgeted for

The affected system, 1976-TQ, was the M113A1 vehicles (Army). When costs are estimated, there are usually discrepancies between the estimate and the actual cost. In fiscal year 1976, the contractor's target cost estimate for the air-frame in the Air Force A-10 Aircraft program was \$33 million less than the Government's estimated cost. Since obligations are limited to contract cost, some funds were left unobligated.

Staffing Deficiencies

The affected systems, 1976-TQ, were:

--Fuze proximity for artillery and 4.2" Motar (Army).

--M113A1 vehicles (Army).

In Chapter 6, we stated that fall-offs in obligation rates do not appear, in general, to be due to staffing deficiencies; however, our review identified the above programs within the Army where obligation rate decreases may have related to staffing

deficiencies. 1/ The dollar effect on obligations caused by this problem has not been determined.

Invalid obligations

The Army Audit Agency determined that Army Tank Automotive Materiel Readiness Command (TARCOM) had inappropriately obligated funds. Its finding was based on a review of seven contracts including the 1974 and 1975 contracts for the M113A1 vehicles. Under the 1974 contract, the Army Audit Agency found that the unobligated balance was understated by about \$17.4 million. The unobligated balance for program years 1972 through 1976 had to be reviewed. This finding was termed by Army officials as a major contributing factor to TARCOM's unobligated balances.

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1/ While we have identified possible staffing deficiencies only in some selected Army programs, an internal DOD document, "Survey of FY 1976 Procurement Programs with First-Year Obligation Shortfalls" Apr. 15, 1977, by Louis Cyr, Charles Hanzlik, and John Dudley, reports that staffing deficiencies affected obligation of funds in the Navy as well as the Army.

### CHAPTER 3

#### LAG BETWEEN APPROPRIATIONS, OBLIGATIONS, AND DISBURSEMENTS

##### CHAPTER SUMMARY

--In one part of our review, we studied the lag between appropriations, direct obligations and direct disbursements in six procurement accounts, 1/ for program years 1973, 1975, 1976 and 1977. 2/ The accounts were:

- Other--Army.
- Aircraft--Navy.
- Weapons--Navy.
- Other--Navy.
- Missiles--Air Force.
- Other--Air Force.

--There was an increase in the lag between DOD procurement appropriations and direct obligations. For the six accounts studied, the average percentage of total direct funds obligated in the first 12 months of the programs declined from 79 percent in the 1975 programs to 72 percent in the 1977 programs--a 7 percentage point decline. (See p. 31.)

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1/ These six accounts were chosen because they accounted for 80 percent of the growth in non-foreign military sales unobligated balances in the procurement area from fiscal year 1975 to fiscal year 1976.

2/ The Aircraft Navy and Weapons Navy accounts were not established until 1974. Therefore, figures cited herein concerning 1973 programs do not pertain to these two accounts.

--This 1975 to 1977 increase in the lag between appropriations and direct obligations continued an earlier pattern from the 1973 programs. For the four accounts (of the six reviewed) that were in existence in 1973, 1/ the average percentage of total direct funds obligated in the first 12 months declined from 85 percent in the 1973 programs to 79 percent in the 1975 programs, to 76 percent in the 1977 programs--a 9 percentage point overall decline. (See p. 31.)

--The increase in the lag between appropriations and direct obligations affecting the 1977 programs occurred even though the Department of Defense Appropriation Act for fiscal year 1977 was signed into law before the start of the 1977 fiscal year--the first "on-time" DOD Appropriation Act in the 1972-77 period. The 1975 Act was enacted three months into the fiscal year; the 1973 Act, five months into the year. (See p. 33.)

--There also was an increase in the lag between DOD procurement appropriations and direct disbursements. For the six accounts studied, the average percentage of total direct funds disbursed in the first 12 months declined from 25 percent in the 1975 programs to 21 percent in the 1977 programs. For the four older accounts in existence since 1973, the percentages disbursed within 12 months were:

-1973 programs: 31 percent  
(72 percent at end of 24 months)

-1975 programs: 31 percent  
(69 percent at end of 24 months)

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1/ Other, Army; Other, Navy; Missile, Air Force; and Other, Air Force.



-1976 programs: 28 percent  
(64 percent at end of 24 months)

-1977 programs: 26 percent (See p. 34.)

LAG BETWEEN APPROPRIATIONS  
AND DIRECT OBLIGATIONS

As seen in Table 3.1, there was an increase in the lag between appropriations and direct obligations--1975 programs compared with 1977 programs. For the six accounts studied, the average percentage of total direct funds obligated in the first 12 months of the programs declined from 79 percent in the 1975 programs to 72 percent in the 1977 programs--a decline of 7 percentage points. We have excluded from consideration the first year obligation pattern in the 1976 programs (67 percent obligated in the first year) because of the unusually late appropriation for that year, enacted in February 1976. 1/

Furthermore, the 1975-77 decline in first year obligations occurred in all six of the accounts studied. The falling off (from 1975 to 1977 of the percentages obligated in the first 12 months ranged from 19 percent decline in Weapons--Navy, (77 percent obligated in the 1975 programs; 58 percent in the 1977 programs) to a smaller drop of 2 percent in Other--Navy, (79 percent obligated in the 1975 programs; 77 percent in the 1977 programs).

This 1975 to 1977 growth in the lag in obligating direct available funds continues a trend we identified back through 1973. All of the four accounts in existence in fiscal year 1973 obligated a higher percentage of available funds within the first 12 months of the 1973 programs than they did during the first 12 months of the 1977 programs. This drop (from 1973 to 1977) ranged from 19 percent in Other--Army, (86 percent obligated within the first 12 months of the 1973 program; 67 percent in the 1977 programs) to 2 percent in Missile--Air Force (79

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1/ In the preceding chapter, 1976 obligation rates were calculated after adding in obligations in the T.Q. for the 1974/76, 1975/76, and 1976/78 programs, in order to compensate for the late appropriation.

Table 3.1

Aging of Direct Obligations--Selected Procurement Accounts

Account	1975		1976		1977	
	-----{000 omitted}-----					
Other--						
Army:						
Total direct		\$ 577,000	\$ 660,000	\$ 714,500	\$ 1,393,900	
available funds . . . . .						
Obligated 1st			467,274	546,707	924,453	
12 months . . . . .		(86)	(71)	(77)	(67)	
(percent)						
Aircraft--						
Navy:						
Total direct		(a)	2,777,319	2,985,029	2,931,600	
available funds . . . . .						
Obligated 1st		(a)	2,215,763	1,970,199	2,130,744	
12 months . . . . .		(80)	(63)		(73)	
(percent)						
Weapons--						
Navy:						
Total direct		(a)	734,700	1,122,400	2,025,000	
available funds . . . . .						
Obligated 1st		(a)	569,237	678,519	1,171,829	
12 months . . . . .		(77)	(60)		(58)	
(percent)						
Other--						
Navy:						
Total direct		2,264,970	1,577,033	1,839,547	2,208,739	
available funds . . . . .						
Obligated 1st		1,930,356	1,247,150	1,282,571	1,700,622	
12 months . . . . .		(85)	(79)	(70)	(77)	
(percent)						
Missile--						
Air Force:						
Total direct		1,683,300	1,521,700	1,707,900	1,687,500	
available funds . . . . .						
Obligated 1st		1,322,100	1,202,300	1,228,800	1,303,900	
12 months . . . . .		(79)	(79)	(72)	(77)	
(percent)						
Other--						
Air Force:						
Total direct		2,071,500	1,643,400	2,035,400	2,282,000	
available funds . . . . .						
Obligated 1st		1,851,400	1,334,700	1,402,100	1,779,900	
12 months . . . . .		(89)	(81)	(69)	(78)	
(percent)						
Total:						
Total direct		\$8,916,152	\$10,403,776	\$12,517,839	\$12,212,276	
available funds . . . . .						
Obligated 1st		\$5,599,775	\$7,036,426	\$7,008,496	\$9,011,848	
12 months . . . . .		(85)	(79)	(67)	(72)	
(percent)						

a. Not applicable.

percent obligated in the 1973 programs; 77 percent in the 1977 programs). In total, the average percentage of funds obligated in the first year declined from 85 percent in the 1973 programs to 79 percent in the 1975 programs, to 76 percent in the 1977 programs--an overall decline of 9 percentage points.

#### THE OBLIGATION LAG AFTER 24 MONTHS

There was less of an increase in the lag between appropriations and direct obligations within the first 24 months of a program. When the four accounts that were in existence in 1973 are reviewed for the first 24 months of the 1973, 1975, and 1976 programs, it is seen that the percentage of funds obligated dropped only 5 percentage points. Within the first 24 months of the 1973 programs, 96 percent of the direct available funds were obligated; at the end of the first 24 months of the 1975 program, it had fallen to 92 percent; at the end of the first 24 months of the 1976 program, it was 91 percent.

The percentage of direct funds obligated in the second 12 months of an account's program was higher in the program years with the lower first year obligation rates. The "catch up" brought the percentage obligated at the end of the 24 months closer to each other than was the case at the end of 12 months.

#### THE 1977 "ON TIME" APPROPRIATION

In spite of on time DOD appropriations for fiscal year 1977, the lag between appropriations and direct obligations increased in that year. This is of interest in the light of executive branch statements to the effect that late appropriations in the 1970s, especially in 1976, contributed to the buildup in unobligated balances. This suggests that the timing of the DOD appropriations is not as critical as perhaps sometimes thought. As seen in Table 3.2, the average monthly obligations (first year) for the 1973 and 1976 programs reviewed were higher before the appropriation was signed than they were after the signing.

Table 3.2

Effect of Late Appropriation on  
First Year Obligations--Selected Procurement Accounts

<u>Program</u>	<u>Average monthly obligations before appropriation</u>	<u>Average monthly obligations after appropriation</u>
	(millions)	
1973 (4 accounts) <u>a/</u>	\$ 501.5	\$ 449.2
1975 (6 accounts) <u>b/</u>	545.4	600.1
1976 (6 accounts) <u>b/</u>	586.6	580.5

a/ Other--Army; Other--Navy; Missile--Air Force;  
Other--Air Force

b/ Other--Army; Aircraft--Navy; Weapons--Navy;  
Other Navy; Missile--Air Force; Other--Air Force.

LAG BETWEEN APPROPRIATIONS  
AND DIRECT DISBURSEMENTS

As seen in Table 3.3, there also was an increase in the lag between appropriations and direct disbursements--1975 programs compared to the 1977 programs. In total, the average percentage of direct available funds disbursed in the first 12 months declined from 25 percent in the 1975 programs to 21 percent in the 1977 programs--a decline of 4 percentage points.

Of the six accounts studied, five disbursed a larger percentage of direct-available funds during the first 12 months of the 1975 programs than during the first 12 months of the 1977 programs. The Aircraft--Navy account is the only account where this percentage increased--from 15 percent in 1975 to 16 percent in 1977. The falling off of the percentages disbursed in the other five accounts has ranged from 11 percent in Weapons--Navy (falling from 21 percent in 1975 to 10 percent in 1977) to 2 percent in Other--Army, (falling from 15 percent in 1975 to 13 percent in 1977).

Table 3.3  
Aging of Direct Disbursements--Selected Procurement Accounts

Account	Program year				
	1973	1975	1976	1977	
	(000 omitted)				
Other-- Army:	Total direct available funds . . . . .	\$ 577,000	\$ 660,000	\$ 714,600	\$ 1,383,000
	Disbursed 1st 12 months . . . . .	57,066	99,257	128,536	174,704
	(percent)	(10)	(15)	(18)	(13)
	Disbursed 1st 24 months . . . . .	283,714	349,739	375,589	-
	(percent)	(49)	(53)	(53)	-
Aircraft-- Navy:	Total direct available funds . . . . .	(a)	2,777,319	2,985,029	2,931,600
	Disbursed 1st 12 months . . . . .	(a)	406,860	430,441	455,573
	(percent)	(a)	(15)	(14)	(16)
	Disbursed 1st 24 months . . . . .	(a)	1,900,377	1,929,720	-
	(percent)	(a)	(68)	(65)	-
Weapons-- Navy:	Total direct available funds . . . . .	(a)	738,700	1,122,400	2,025,000
	Disbursed 1st 12 months . . . . .	(a)	151,441	156,568	202,947
	(percent)	(a)	(21)	(14)	(10)
	Disbursed 1st 24 months . . . . .	(a)	485,695	651,939	-
	(percent)	(a)	(66)	(58)	-
Other-- Navy:	Total direct available funds . . . . .	2,264,970	1,577,033	1,839,547	2,208,739
	Disbursed 1st 12 months . . . . .	552,851	254,678	273,447	282,044
	(percent)	(24)	(16)	(15)	(13)
	Disbursed 1st 24 months . . . . .	1,480,940	906,811	980,190	-
	(percent)	(65)	(58)	(53)	-
Missile-- Air Force:	Total direct available funds . . . . .	1,683,300	1,521,700	1,707,800	1,687,500
	Disbursed 1st 12 months . . . . .	307,100	439,400	412,300	402,300
	(percent)	(18)	(29)	(24)	(24)
	Disbursed 1st 24 months . . . . .	1,259,900	1,183,200	1,275,100	-
	(percent)	(75)	(78)	(75)	-
Other-- Air Force:	Total direct available funds . . . . .	2,071,600	1,643,400	2,035,400	2,282,000
	Disbursed 1st 12 months . . . . .	1,095,700	899,100	979,200	1,075,200
	(percent)	(53)	(55)	(48)	(47)
	Disbursed 1st 24 months . . . . .	1,756,700	1,282,500	1,399,700	-
	(percent)	(85)	(78)	(69)	-
Total:	Total direct available funds . . . . .	\$6,596,870	\$8,918,152	\$10,404,776	\$12,517,839
	Disbursed 1st 12 months . . . . .	\$2,012,717	\$2,250,736	\$ 2,380,492	\$ 2,592,768
	(percent)	(31)	(25)	(23)	(21)
	Disbursed 1st 24 months . . . . .	\$4,781,254	\$6,108,322	\$ 6,612,238	-
	(percent)	(72)	(68)	(64)	-

a/Not applicable.

THE DISBURSEMENTS LAG  
AFTER 24 MONTHS

In the first 24 months of the program, the percentage of direct-available funds disbursed also declined overall for the accounts reviewed (Table 3.3). When the four accounts that were in existence in 1973 are reviewed for the first 24 months of the 1973, 1975, and 1976 programs, it is seen that the percentage of funds disbursed dropped by 8 percentage points. At the end of the first 24 months of the 1973 program, 72 percent of direct-available funds had been disbursed; the percentage had fallen to 69 percent at the end of the first 24 months of the 1975 program; and down to 64 percent at the end of the first 24 months of the 1976 program.

## CHAPTER 4

### OBLIGATION ESTIMATES AND RECOUPMENTS

#### CHAPTER SUMMARY

--There is possible excess obligational authority in Defense's own procurement programs which could be reprogramed or used to fund future requirements:

-At the Army Armament Materiel Readiness Command, "unapplied reserves" of obligational authority exceeded \$40 million at June 30 for every year from 1975 to 1977, and reached \$97.7 million at September 30, 1976. (See p. 64.)

-At the Army's Tank-Automotive Materiel Readiness Command, "unapplied reserves" totaled \$86 million in September 1977, of which \$50 million has been identified by Command officials as excess to their needs. (See p. 67.)

--Despite the existence of excess funds, Defense has not implemented a process for systematic and regular reporting on the availability of excess funds to the service and Office of the Secretary of Defense levels. We previously recommended that the Defense Department devote additional attention to this matter. (See p. 69.)

--In the last few weeks of our review, actual obligations data for fiscal year 1977 became available. There was another Defense obligation "shortfall"--actual obligations were less than the amounts projected--although it was less than in preceding years. In the Defense--military subfunction (051), 1977 actual direct obligations were 3.3 percent, or \$3.5 billion, less than the amount estimated prior to 1977 (the "budget year" estimate) and 3.4 percent,

or \$3.7 billion, short of the amount estimated in 1977 after enactment of the Defense 1977 Appropriation Act (the "current year" estimate). This compared with shortfalls from current year estimates in fiscal years 1974-76 which ranged from 4 to 7 percent. The smaller shortfall in 1977 may have been due in part to Defense's new process for monitoring obligation performance. (See p. 41.)

- Recent DOD budget process changes which could lead to improved obligation estimates and performance, if fully developed and properly applied, include the following:
  - Institution of a monthly obligation plan.
  - Use of a monthly "FLASH" report to monitor obligation performance.
  - Buildup of estimates considers not only historical trends, modified by "management judgment," but also detailed plans submitted from the field.
  - Estimates of direct obligations are not tied to estimates of reimbursable obligations. (See p. 54.)
- The executive branch has not yet taken all the steps needed to better estimate Defense's procurement obligation rates and balances. For example, obligation rate guidance provided by the Office of the Assistant Secretary of Defense (Comptroller) to the services for developing fiscal year 1978 and 1979 estimates, appears to be optimistic for some procurement accounts when compared with historical actuals. Also the Office of Management and Budget officials, while acknowledging that there has been a problem in the estimates of Defense procurement obligations, state that they do not provide obligation estimate guidance to Defense or systematically check its estimates prior to inclusion in the President's budget. (See p. 62.)



--DOD fund control problems, including Anti-Deficiency Act violations, in the accounting systems relating particularly to the procurement accounts and foreign military sales (these systems have not been approved by GAO) have been quite serious and extensive. These problems impact upon DOD ability to effectively plan and monitor obligations, or estimate unobligated balances:

-Of 154 accounting systems identified as subject to approval by us, 82 have not yet been submitted for approval.

-68 of the 72 GAO-approved accounting systems were approved relatively recently--within the last 5 years.

-Those which have been approved are primarily payroll, stock, and industrial fund systems. (See p. 49.)

--Accordingly we recommend that the Department of Defense

-Make certain that the improvements they are making in their internal Defense reporting provide for the systematic identification of amounts, for review by service and department level officials, which have become excess to program funding requirements. This would also permit timely reporting to the Congress of the amounts determined to be excess obligational authority. (See p. 70.)

-Make certain that its new policies and procedures provide for closer monitoring of obligation projects at the Department level, and more effective use of

existing management reports and data on obligations, in order to improve obligation estimates and analyses of variances between estimates and actuals. (See p. 63.)

--We recommend that the Office of Management and Budget

-Monitor the obligation rates reflected in Defense's obligation projections for procurement activities, with a view toward identifying possible misestimates, getting changes made or adding explanatory information to the budget, and if necessary, developing more detailed guidelines concerning estimating policies and procedures. The Office of Management and Budget should take a more active role to assure that the Congress will be provided the most accurate projections of obligations and unobligated balances, and the fullest explanations of major changes and variances from estimates. (See p. 63.)

#### PATTERN OF MISESTIMATES

During the initial phase of this review, we studied historical trends in DOD misestimates of obligations in the "budget year" and "current year" (CY) budget submissions of the President. The "budget year" submission for a given fiscal year occurs in the January prior to the start of the fiscal year, 1/ while the "current year" submission occurs 12 months later during the fiscal year. The current year submission normally contains revised estimates reflecting congressional appropriation action and other factors. 2/

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1/ The fiscal year start was on July 1 for every fiscal year until fiscal year 1977, which started on October 1, 1976.

2/ The current year revised estimates for fiscal year 1976 were published one month prior to enactment of the 1976 DOD Appropriation Act.

We found that in the DOD--military budget subfunction obligations in the direct program tended to be overestimated, leading to larger than projected unobligated balances; while obligations in the reimbursable program tended to be underestimated. The purpose of this chapter is to explain the processes which led to significant misestimates within DOD during fiscal year 1976 and prior years; what changes have been made within DOD to improve estimates in fiscal year 1977 and the future (obligation planning and monitoring); and what system exists for the reporting of excess funds to higher DOD authority.

#### Trends in the direct program

Direct obligations in the DOD--Military subfunction (051) were overestimated in budget year submissions in five out of six fiscal years during fiscal year 1972 through the TO. The overestimates averaged \$4.3 billion during this period. During fiscal year 1976, however, the overestimate was \$8 billion. The major area within the 051 subfunction which accounted for 58.8 percent of the overestimate during fiscal year 1976 was procurement, with an overestimate of \$4.7 billion (20.1 percent greater than the eventual amount).

Part of the reason for differences between budget year estimates and the later actual amounts related to congressional actions on DOD budget requests. However, as seen in Table 4.1, DOD also regularly overestimated its direct obligations in its current year estimates, when the major congressional actions on the DOD budget were already completed or nearly completed (1976). <sup>1/</sup> In the DOD--Military subfunction, current year projections (made in January) were 4 to 7 percent, or approximately \$4 to \$7 billion, higher than the actual amounts as of the fiscal yearend (six months later) for fiscal years 1974-76. In the procurement area, the current year estimates were 19 to 25 percent higher than the eventual amounts (fiscal years 1974-76).

There was another DOD direct obligations "shortfall"--actual obligations were less than the amounts projected--in

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<sup>1/</sup> As seen in Table 4.1, the Department's current year estimates of 1976 budget authority were very close to the actual amounts proved by the Congress.

Table 4.1  
 Comparison of Estimated and Actual Budget Authority and Direct Obligations  
 for DOD--Military Subfunction and Procurement: Fiscal Years 1974-1977  
 (Millions)

	Budget Authority		DOD--Military Subfunction (CSI)		Procurement		Estimate difference from actual-- percent
	Budget Authority	Estimate from actual-- percent	Direct obligations	Estimate difference from actual-- percent	Budget authority	Direct obligations	
<b>Fiscal Year 1974:</b>							
Budget year estimate	\$ 81,481	3	\$ 84,300	4	\$ 19,806	\$ 17,987	12
Current year estimate	82,690	2	84,895	7	17,998	19,814	25
Past year actual	81,071		79,550		17,028	16,000	
<b>Fiscal Year 1975:</b>							
Budget year estimate	90,974	6	90,735	5	19,867	18,594	15
Current year estimate	85,775	0	89,951	4	16,729	20,351	19
Past year actual	95,912		86,282		16,698	17,078	
<b>Fiscal Year 1976:</b>							
Budget year estimate	101,749	6	98,599	9	24,420	22,768	25
Current year estimate	96,202	1	98,066	7	21,205	22,741	35
Past year actual	95,712		91,649		20,591	18,196	
<b>Fiscal Year 1977:</b>							
Budget year estimate	111,250	3	107,501	3	29,310	25,975	7
Current year estimate	108,240	0	107,690	4	27,672	26,559	9
Past year actual	108,460		101,993		27,957	24,256	

fiscal year 1977, although it was less than in preceding years (see Table 4.1). In the 051 subfunction, 1977 actual direct obligations were 3.3 percent, or \$3.5 billion, less than the amount projected in the 1977 budget year estimate (estimate in January 1976 budget); and 3.4 percent, or \$3.7 billion, short of the amount projected in the current year estimate for 1977 (estimate in January 1977 budget). The latter projection was made after enactment of the DOD 1977 Appropriation Act. This shortfall was within the range (\$3 billion to \$8 billion) predicted by us in September 1977.

Similarly, there was another shortfall in 1977 for the procurement area; but, as in the overall 051 budget subfunction, the shortfall was less than in the preceding years. The budget year and current year estimates were 7-9 percent too high, compared with overestimates in the preceding years of 12-25 percent.

The smaller obligations shortfall in 1977 may have been due in part to DOD's new processes, implemented in 1977, for planning and monitoring obligations (discussed in a subsequent section).

#### Trends in the reimbursable program

Contrary to the obligation trends in the direct program, obligations in the 051 reimbursable program were often underestimated in budget year estimates--in five out of six fiscal years between 1972 and the TQ. Fiscal year 1976, when there was a slight overestimate in the procurement area, was an exception. Table 4.2 compares estimated and actual reimbursable obligations for four fiscal years.

There are estimating problems peculiar to reimbursable obligations which are discussed later in this chapter. DOD has instituted new procedures which are designed to improve reimbursable program estimates and diminish buildup of unobligated funded reimbursable authority (FRA), especially in foreign military sales transactions.

#### CONCERN WITH ESTIMATES AND ADMINISTRATION EXPLANATIONS

Considerable concern regarding the difference between estimated and actual obligation and outlay patterns within the Government began to surface toward the end of 1976. An article in The New York Times on October 12, 1976, reported Government-wide outlay lags in fiscal year 1976

Table 4.2

Comparison of Estimated and Actual Reimbursable Obligations  
for DOD--Military Subfunction and Procurement: Fiscal Years 1974-1977  
(Millions)

	DOD--Military Subfunction (051)		Procurement	
	Obligations	Estimate difference from actual-- percent	Obligations	Estimate difference from actual-- percent
<u>Fiscal Year 1974:</u>				
Budget year estimate	\$ 6,537	-16	\$ 2,298	-24
Current year estimate	7,719	-1	3,061	2
Past year actual	7,768		3,014	
<u>Fiscal Year 1975:</u>				
Budget year estimate	7,572	-22	2,853	-22
Current year estimate	12,539	30	7,047	92
Past year actual	9,674		3,668	
<u>Fiscal Year 1976:</u>				
Budget year estimate	9,406	-3	3,768	12
Current year estimate	14,915	54	7,932	136
Past year actual	9,656		3,355	
<u>Fiscal Year 1977:</u>				
Budget year estimate	11,532		4,841	
Current year estimate	11,240		3,933	

of \$7.5 billion and in the TQ of between \$5 and \$8 billion. The article listed three theories as to why the shortfall existed:

1. Heads of agencies padded their estimates more than usual because they feared larger than usual cutbacks by an economy-minded administration and a Congress with new and tighter budget control procedures.
2. Original estimates contained built-in allowances for inflation that turned out to be too large.
3. The Government, for a variety of reasons, moved more slowly than expected in signing contracts.

DOD officials responded to the article the next day by estimating that DOD accounted for \$1 billion in the fiscal year 1976 lag and \$2.1 billion in the TQ lag. The reasons for the shortfalls initially given by DOD included a reference to DOD's estimating procedures:

"[the procedures] rely heavily on past experience and trends at the appropriation level. The estimates for the Transition Period apparently did not adequately take into account the increase in real program growth in FY 1976 following several years of decline in such growth (during the period from which estimating factors were developed.) In other words, appropriation level historical factors failed to take into account the increased burden placed on the contracting system by the larger programs \* \* \* much of the growth in FY 1976 also was in the major weapons systems areas which are the most difficult to put on contract."

OMB, in an October 1976 memorandum on the shortfall in Government outlays and obligations, stated that the major differences between actuals and estimates "are scattered among the larger agencies, though Defense has the largest problem." The reasons for the DOD shortfall were given as follows:

--\$1.2 billion due to actual obligation rates being below normal in operation and maintenance, research and development, and military personnel accounts. OMB stated that although the precise causes were not known, "they appear to result largely from problems of planning for obligations this year, culminating in the unusual period of the Transition Quarter."

--\$0.9 billion resulted from procurement obligations for fiscal year 1976 falling below plans. OMB stated, "It appears that Defense did not adjust planning rates to take into account the effect of late 1976 appropriations and the sizable (23 percent) increase in procurement appropriations."

--\$0.9 billion resulted from efforts to speed up collection of payments by foreign governments for military equipment.

--\$0.2 billion resulted from congressional acts for pay increases.

OMB stated that no substantial evidence existed that agencies were consciously more optimistic about their ability to spend during that period than they had been in the past. OMB went on to state that it would insist that agencies pay more attention to their estimates and that OMB needed to find ways to avoid tendencies to overestimate spending.

#### DOD ESTIMATING PROCESS

##### Obligation Planning through Development of Estimates

The Department of Defense begins its budget planning for a fiscal year about 1-1/2 years prior to submission of the President's budget with issuance of the Joint Strategic Objective Plan. This plan outlines the basic national defense interests, commitments, and policy as seen by DOD. In turn, fiscal constraints are then identified and compared to the national objectives, resulting in more specific recommendations for the attainment of the national defense.

The Secretary of Defense issues fiscal guidance to each service identifying each major mission and support category. The services then prepare and submit to the Secretary of Defense program objective memorandums outlining individual program requirements in response to this guidance. Decisions then made by the Secretary of Defense result in the approved programs levels upon which each service develops its budget estimates. These budget estimates, once approved by the Secretary of Defense and OMB, become part of the President's budget submitted to the Congress.



The annual budget submission for DOD programs include estimates of the amount of obligations to be incurred in the year in progress (current year) and the coming year (budget year). DOD officials state that the estimates reflect obligation rates developed by the Office of the Assistant Secretary of Defense (Comptroller). These rates specify what percentage of the available funds are to be obligated in the fiscal year.

Officials in the DOD Comptroller's Office state that their obligation rates are arrived at through discussions with service representatives. The officials further state that in developing the rates, they (1) consider historical trends for the appropriation accounts, and (2) apply adjustments reflecting "management judgement." DOD officials also state that the projected procurement obligations developed through this process are designed partly to serve as "target incentives" for project managers, and thus tend to be "optimistic".

Office of Management and Budget (OMB) officials also state that DOD's estimates of procurement obligations are often "optimistic target" amounts rather than "best estimates." They note that OMB prefers agencies to provide best estimates rather than target amounts, but acknowledge that OMB has not taken steps to change DOD's approach. They also state that DOD purposely uses high estimates of obligations on the theory that lower estimates might prompt OMB and/or congressional cuts in DOD budget requests.

#### Monitoring of obligations

Timely and systematic analysis of obligation trends was generally not performed at any level in DOD prior to fiscal year 1977 to determine whether actual obligations were conforming to the planned obligation rates. However, the services did maintain records on obligation levels, and sometimes monitored obligation performance:

- The Department of the Navy has had since 1965 which identified by appropriation level the actual amount of obligations incurred on a monthly basis.
- The Department of the Army monitored the rate of obligations for the operations and maintenance and the travel accounts.

--The Department of the Air Force periodically analyzed obligations by using such reports as the "Appropriation Status by Fiscal Year Program and Subaccounts" report.

#### Reasons for misestimates

DOD officials acknowledge:

"The Department's projections in recent budgets have been off the mark--specifically, the balances which have materialized in recent years have been higher, and obligations and outlays lower, than were forecast in the budgets."

In commenting on their estimating procedures during fiscal year 1976 and prior years, and specifically on procedural factors which contributed to the difference between estimated and actual obligations, DOD officials stress several factors:

--The Department's appropriations were changed 7 years ago from a no-year basis to a specific period of availability for obligation before the funds lapsed. A learning period was necessary, therefore, for DOD to adjust its estimating procedures.

--Estimates of obligations, and consequently of unobligated balances, were made once a year for the January budget submission to the Congress. DOD did not update it frequently and there had not been a great deal of attention paid to estimates and monitoring until after fiscal year 1976.

--FMS accounted for a substantial part of the deviation in the direct program. DOD intermingled FMS estimates with direct program estimates, causing an aberration in its direct obligation projections.. (See p.53.)

We believe that another important factor is DOD development of its estimates as target incentives, or optimistic estimates, instead of best estimates. There has been over-optimism in the light of historical experience. Furthermore, certain accounting systems deficiencies may have been important.

DOD ACCOUNTING SYSTEM DEFICIENCIES

DOD fund control problems (including Anti-Deficiency Act violations) in the accounting systems relating particularly to the procurement accounts and FMS (these systems have not been approved by GAO) were quite serious and extensive. These problems may impact upon DOD's ability to effectively plan and monitor obligations. Of 154 accounting systems within DOD identified as subject to our approval, 82 have not yet been submitted for approval. 68 of the 72 GAO-approved accounting systems were approved relatively recently--within the last 5 years. Those which have been approved are primarily payroll, stock and industrial fund systems.

The following table summarizes, by service, DOD accounting systems we have approved as of September 30, 1977:

Table 4.3

DOD Accounting System Approval by GAO--by Service

	<u>Systems subject to approval</u>	<u>Approved</u>	<u>Unapproved</u>
Air Force	40	29	11
Army	23	8	15
Navy	70	28	42
Defense agencies	<u>21</u>	<u>7</u>	<u>14</u>
Total	<u>154</u>	<u>72</u>	<u>82</u>

Violations of the Anti-Deficiency Act and other problems are likely to occur when obligations of appropriations are not properly controlled and accounted for. Some examples follow.

Department of the Army

The Army has had extensive problems in accounting for obligations in recent years. The Chairman of the House Committee on Appropriations asked us to review an alleged violation of the Anti-Deficiency Act (31 U.S.C. 665) by the U.S. Army Electronics Command. We reported

that an audit performed by the Army showed a deficiency of about \$40 million existed in a fiscal year 1972 procurement appropriation. We also reported that the precise reasons for the overobligation may never be determined because ledgers and journal vouchers had apparently been lost during a reorganization and move. 1/

Consequent to the overobligations initially discovered at the U.S. Army Electronics Command, it became evident that problems existed at other commands. As a result, in January 1975, the U.S. Army Materiel Development and Readiness Command initiated a command-wide effort to reconcile source documents, including orders received, with procurement account financial records. At February 29, 1976, more than 16,000 staff-days had been spent on the reconciliation. In addition, the Army Audit Agency has spent almost 12,000 staff-days as of May 31, 1976, at a cost of over \$1.6 million in reviewing (1) the status of the reconciliation and (2) the Army's customer order program. More than \$1.5 billion in gross adjustments necessary to correct procurement account records had been identified as of February 29, 1976, through the reconciliation.

On April 21, 1976, the Secretary of Defense reported to the President and the Congress overobligations totaling \$205 million in the following Army procurement appropriations:

<u>Appropriation</u>	<u>Overobligation</u> , (millions)
Procurement of Equipment and Missiles--Army, fiscal years 1971 and prior	\$150.1
Other Procurement--Army, fiscal year 1972	14.5
Procurement of Ammunition--Army, fiscal year 1973	<u>40.4</u>
Total	<u><u>\$205.0</u></u>

1/ FGMSD-76-2, Sept. 8, 1975.

At the present time, the Army is investigating possible violations in ten additional appropriations.

Generally, the violations reported and now being investigated are a result of poor accounting and reporting practices and a general breakdown in financial management within the Department of the Army.

The violations of the Anti-Deficiency Act occurred principally because the Army 1/

- overstated orders from foreign governments for goods and services (the value of orders received is treated as additional obligational authority),
- transferred fund authority out of procurement appropriations to other appropriations when such funds were not available for transfer,
- made transfers out of appropriations and failed to make corresponding reductions in fund authority allocated to field commands, and
- failed to take effective corrective action regarding Army Audit Agency findings in a June 1972 report on financial problems at the Electronics Command.

#### Department of the Navy

Each year the Navy was systematically deobligating, without proper justification, millions of dollars of obligations and writing off accounts receivable pertaining to expired appropriations. From June 30 1973, to June 30, 1975, such deobligations and write-offs amounted to \$90 million. As a result, the Navy did not have adequate accounting control over obligations and receivables. Further, its financial reports

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1/ FGMSD-76-74, Nov. 5, 1976.

did not accurately show (1) obligations and liabilities it had incurred, (2) accounts receivable, and (3) withdrawals from and restorations to expired appropriations. 1/

Department of the Air Force

Because improper accounting procedures were used for several years, the Air Force does not know the status of its 18 procurement appropriations from fiscal years 1971 through 1976. Consequently, it cannot determine whether it has obligated or expended more fund resources than are available in these accounts. Also, the Air Force Logistics Command recorded improper entries totaling \$7.5 million in 1976. Air Force officials told us this was done to avoid revealing an overobligation in one of its procurement accounts. 2/

DOD ESTIMATING PROCESS FOR  
THE REIMBURSABLE PROGRAM

The reimbursable program involves sales of items or services to generally three customer categories--FMS, military assistance program (MAP), and other U.S. Government agencies. Reimbursable programs are more difficult to process than direct programs because

- Accurate forecasts are more difficult to make.
- Planning is complicated when forecasts are not accurate.
- Orders and requirements are subject to change.
- Orders are frequently for very small amounts.

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1/ FGMSD-76-45, July 2, 1976.

2/ FGMSD-77-81, Nov. 1, 1977.

These problems are especially evident in the FMS category and have significantly affected DOD's obligation estimating capabilities prior to fiscal year 1977.

Instead of being provided with direct obligation authority as in the direct program, the services are provided with funded reimbursable authority (FRA) which is authority to accept customer orders up to the extent of the FRA. The FRA is a lump sum estimate of the procurement costs for reimbursable orders that are expected to be received during a particular year. It carries no designation of customers or line items. The following illustrates how FRA is estimated and accounted for within the Army using the U.S. Army Armament Materiel Readiness Command (ARRCOM) as an example.

Each year ARRCOM receives its FRA, both initially and for later needed additions, based on its undocumented estimates. Officials told us that they did not retain the records but that ARRCOM computed the initial estimates from indicated procurement interests of other U.S. military services and from a review of previous sales to other customers. For later FRA additions, it estimated its needs by comparing the orders on hand to the available FRA balance.

Although the FRA is not obligation authority, it is included in the Army's unobligated balance for reimbursable programs. The Army's unobligated balance consists of two items: (1) the difference between the FRA and actual customer orders, and (2) the amounts of firm customer orders that did not result in contracts by the end of the fiscal year. 1/

#### Reimbursable estimate impact on DOD data base

FMS transactions have been a major factor in obligation trends in recent years and have permitted estimating problems involving the DOD data base.

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1/ Recoupment of excess FRA, using ARRCOM as an example, is discussed later in this chapter.

DOD officials acknowledge that (prior to the 1978 budget) they developed direct program obligation estimates in a series of calculations which "forced upward" the estimates in order to compensate for lower reimbursable program estimates. Direct obligation estimates were raised above the levels suggested by historical trends in order to compensate for lower expected reimbursable program obligations. This was done to produce (for budget submissions) an overall level of obligations (FMS and non-FMS) roughly in line with historic trends in the direct program. DOD officials state that this procedure-- reportedly no longer followed by DOD--accounted for \$3.3 billion of the variance between the January 1976 forecast of TO unobligated balances for all DOD-administered funds, and the eventual balance.

ESTIMATING CHANGES INSTITUTED  
DURING FISCAL YEAR 1977

The spiraling end-of-year unobligated balances being experienced by DOD culminated in a letter by the Deputy Secretary of Defense on September 10, 1976, to the military departments and defense agencies expressing his deep concern over the continuing delays in executing defense programs. Shortly thereafter, on October 29, 1976, the services and defense agencies were directed to establish a plan of monthly obligations for fiscal year 1977. There were also to be monthly "flash" status reports on the execution of the plan.

The late start and unexpected timing of the requirement caused a high volume of changes to the initial estimates and involved significant redistribution of planned obligations between the first quarter of fiscal year 1977 and subsequent months. Although this turbulence settled down by February 1977, it had impaired OSD's ability to measure performance against the initial plan.

On June 8, 1977, the Assistant Secretary of Defense (Comptroller) issued revised reporting requirements which attempt to simplify the reporting requirement and make the report of obligations more compatible with OSD efforts to monitor the rate of obligations. Guidance on the revised reporting requirement, the "Flash Report on Obligation Status," will be incorporated in the DOD Accounting Guidance Handbook DOD 7220.9H, as section 323.



The flash reports are submitted monthly to the OSD Comptroller's Office. They are supposed to be submitted not later than the close of business on the twelfth working day of the month immediately following the reporting month. The reports include information on the level of obligations incurred by appropriation or fund account, and by fiscal year programs, in both the direct and reimbursable programs. The reports show the amount of actual obligations incurred in the direct and reimbursable program for the month immediately prior to the reporting month along with a "flash," or estimate, of the obligations incurred during the month covered by the report. For instance, a report received on December 16 (12 working days after the end of November) would include actual information on obligations incurred during October, and a flash estimate of obligation in November. However, OSD requires the procurement, research, development, test and evaluation, military construction, and the FMS trust fund accounts to show actual amounts in both the prior and current reporting month.

#### Fiscal Year 1978 obligation plan improvements

OSD plans to continue the new planning and monitoring procedure during fiscal year 1978. Their decision was relayed to the military services and defense agencies by a letter dated August 10, 1977, which also listed several improvements to be made in the obligation plan reporting system. These may be summarized as follows:

- First quarter turbulence: The fiscal year 1978 estimates should be developed in such a way that a fair comparison may be drawn between initial estimates and actual obligations incurred to eliminate the fiscal year 1977 experience discussed above.
- Supporting detail: The plans submitted to OSD must be supported below the appropriation level within the DOD component by major items/programs.

- Plan revisions: Revised plans for future months to rephase any shortfall sustained in lapsed months are acceptable. Such revisions should assume full execution of all approved program contained in the budget and should be submitted coincident with the monthly flash obligation report. Adjustments to the monthly plan resulting from the budget review should be made in the February update to provide for maximum consistency and to avoid unnecessary distortion of the first quarter estimates.
- Free-fall estimates: Revised estimates may be submitted when problems occur which affect service ability to achieve full or timely execution of approved programs. Such submissions should not be presumed to alter OSD-approved objectives or budget document estimates unless and until formal notification is provided.
- Shortfall rationale: An explanation of deviations between planned estimates and actuals must be developed by major items/programs and provided to OSD, preferably coincident with the flash estimates.

The reporting system on obligations was intended for internal OSD use; and in its present form, according to an OSD official, would not be used as a basis for continual reporting to the Congress on the execution of DOD programs. The system is presently used to informally notify the Secretary of Defense of any significant variations between the plan and the actual obligations. Likewise, each service secretary is also kept informed by his staff of any shortfalls so corrective action can be taken when necessary.

COMPARISON OF DIRECT OBLIGATION TRENDS  
BEFORE AND AFTER FISCAL YEAR 1977 IMPROVEMENTS

There was a smaller DOD direct obligations shortfall (obligations less the amounts originally projected) in fiscal year 1977 than in preceding years. The DOD

military functions actual 1/ direct obligations for fiscal year 1977 were 3 percent (\$3.5 billion) less than originally projected, 2/ compared with shortfalls for fiscal years 1974 through 1976 which ranged from 4 to 9 percent (refer to Table 4.1). The shortfall in the procurement area for fiscal year 1977, which from fiscal year 1974 to fiscal year 1976 had over-estimates of direct obligations of 12 to 25 percent, was 7 percent (\$1.7 billion). The improvements may have been due to the new processes developed during fiscal year 1977 for planning and monitoring obligations (discussed above).

We requested the services to provide direct obligations and total funds available for obligation for six key procurement accounts during the fiscal year 1974 to fiscal year 1978 period. The accounts all are financed by appropriations available for obligation over 3 years. Obligation rates for selected program years (the 1974-76 program, etc.) were then computed. The first year rate for a program is the most significant in that what is unobligated after the first year determines the percentages planned to be obligated during the second and third years. The services plan obligations on the basis of obligating 100 percent of their total direct obligational authority by the end of the third year of the program.

The following serves as an illustration (the noted percents reflect actual obligation\* rates achieved):

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1/ According to DOD figures provided Nov.-Dec. 1977, subject to minor change before release of the fiscal year 1979 budget.

2/ Estimate in the fiscal year 1977 budget.

Table 4.4

Missile Procurement--Air Force  
1974/76 Program Estimated and Actual  
Obligations as a Percentage of Total  
Direct Obligational Authority

<u>1974/76 programs:</u>	<u>First year</u>	<u>Second year</u>	<u>Third year</u>	<u>Total</u>
At FY 1974 budget	81.5	13.5	5.0	100.0
At FY 1975 budget	85.0	13.2	1.8	100.0
At FY 1976 budget	<u>a/ 77.9</u>	<u>15.9</u>	6.2	100.0
At FY 1977 budget	--	<u>a/ 16.0</u>	6.1	100.0
At FY 1978 budget	--	--	<u>a/ 5.9</u>	<u>a/ 99.8</u>

a/ Actual percentage, all other percentages are estimates and subsequent revised estimates.

Table 4.5 displays the first year direct obligation rates in order to facilitate comparison of direct obligation trends prior to and after processes instituted by DOD during fiscal year 1977.

Using Missile Procurement--Air Force again as an example, it is evident that several factors led to the obligation misestimate (first year) for the 1976-78 program.

- The budget year estimate (at the fiscal year 1976 budget submission) was 85 percent. This estimate was higher than the budget year estimates of 81.5 and 77.7 percent for the 1974-76 and 1975-77 programs.
- The estimate of 85 percent was also much higher than the recent actual rate of 77.9 percent for the 1974-76 program.
- The actual direct obligation rate for the first year of the 1976-78 program (as reflected at the time of the fiscal year 1978 budget) of 71.9 percent was much lower than the comparable rates of 77.9 and 77.8 percent in the 1974-76 and 1975-77 programs.

Table 4.5

First Program Year Estimated and Actual Obligations  
As a Percentage of Total Direct Obligational Authority  
For Six Selected Procurement Accounts

	<u>Missiles--</u> <u>Air Force</u>	<u>Other--</u> <u>Air Force</u>	<u>Other--</u> <u>Army</u>	<u>Other--</u> <u>Navy</u>	<u>Aircraft--</u> <u>Navy</u>	<u>Weapons--</u> <u>Navy</u>
1974-76 program:						
At FY 1974 budget	81.5	88.9	78.0	87.3	79.6	82.8
At FY 1975 budget	85.0	88.8	78.8	89.6	79.0	81.7
At FY 1976 budget	77.9	84.8	59.8	79.0	74.1	75.3
1975-77 program:						
At FY 1975 budget	77.7	86.2	77.4	91.2	74.5	81.8
At FY 1976 budget	87.1	85.4	78.7	89.8	74.0	82.1
At FY 1977 budget	77.8	80.9	69.7	79.4	79.8	77.1
1976-78 program:						
At FY 1976 budget	85.0	89.2	74.9	90.2	76.0	82.0
At FY 1977 budget	78.8 [3.6]	75.8 [12.0]	76.3 [6.8]	69.4 [19.1]	77.2 [7.8]	81.5 [3.8]
At FY 1978 budget	71.9 [7.5]	68.7 [9.6]	60.6 [13.6]	55.8 [17.0]	62.8 [14.1]	60.6 [11.3]
1977-79 program:						
At FY 1977 budget	78.9	83.5	75.7	87.2	77.3	81.5
At FY 1978 budget	76.0	69.1	75.7	80.3	75.8	80.0
At FY 1979 budget	77.3	78.1	66.9	79.9	71.0	67.3
1978-80 program:						
At FY 1978 budget	76.3	69.5	75.0	80.1	75.4	80.3
At FY 1979 budget	76.3	69.9	-	80.0	76.7	80.0

Note: Bracketed information refers to TQ obligation rates.

--Even allowing three additional months of obligations in the TQ, the actual obligation rate of 79.4 percent (i.e. 71.9 plus 7.5) for the 1976-78 program still represented a significant shortfall from the budget year estimate of 85 percent.

The five other procurement accounts show trends similar to the above in that the budget year estimate for the 1976-78 program was generally high when compared with recent historical actual trends; the subsequent actual rate was abnormally low (even when the TQ is taken into consideration).

The budget year estimates for the 1977-79 programs (at the time of the 1977 budget) in the six accounts showed an improvement. The estimates were somewhat lower in most cases than previous budget year estimates, while actual obligations were back up to earlier levels (except for the Weapons Procurement-Navy account).

The various estimates at the time of the fiscal year 1978 budget showed the effects of DOD actions instituted during fiscal year 1977. The revised estimates for the 1977-79 programs tend to be significantly lower than the budget year estimates for those programs. The budget year estimates for the 1978-80 programs tended to be lower than prior budget year estimates, and the revised estimates (expected in the fiscal year 1979 budget) do not change dramatically--as they have in the past--from the initial estimate. Nevertheless, first year obligation estimates for the 1977-79 and 1978-80 programs appear to be overestimated based on historical actuals for several procurement accounts. This is illustrated for the 1978-80 programs in Table 4.6:

Table 4.6

Comparison of Budget Year Estimates for 1978-80 Programs  
With Historical Actuals--First Year Obligation Rates

Procurement account	Average actual rate for four previous programs a/		Budget year estimated rate for 1978-80 for program	Difference from average (including TQ)
	<u>Excludes TQ</u>	<u>Includes TQ</u>		
Missiles--Air Force	76.2	78.1	75.3	1.8
Other--Air Force	78.1	80.5	69.5	11.0
Other--Army	64.3	67.7	75.0	-7.3
Other--Navy	73.5	77.8	80.1	-2.3
Aircraft-- Navy	69.4	73.0	75.4	-2.4
Weapons-- Navy	70.1	72.9	80.3	-7.4

a/ 1974-76, 1975-77, 1976-78, and 1977-79 programs.

Based on the above table, the first year rates for the 1978-80 programs in Other Procurement--Army and Weapons Procurement--Navy may be overestimated, leading to a possible obligation shortfall in these accounts at the time of the fiscal year 1980 budget submission. Other Procurement--Navy and Aircraft Procurement--Navy may be slightly overestimated. Other procurement--Air Force, on the other hand, may be underestimated. Our projections are based on historical trends only, however, and are not influenced by field information or other information which affects DOE estimates.

Assuming estimates for these accounts (especially the Navy accounts) are overly optimistic, part of the reason may lie with internal DOD budget policies. We have been told by Navy project officials that because their plan is used for apportionment, they are optimistic on expected obligations. According to project officials, obtaining additional apportionment takes up to 3 months. They explained that they could not risk a delay award because of lack of funds. They stated that the simplest solution was to estimate high on obligations, in order to be sure of having funds.

A Navy official explained that:

"The project manager estimates fund requirements based upon projected contract award dates. To assure himself that funds are released and available to cover any contract awards which should occur, his plan must be adequately conservative, or in one view, optimistic. Based on historical experience, higher authority will make adjustments to the plan which attempt to remove over-optimism."

Also, obligation rate guidance provided by the Office of the Assistant Secretary of Defense (Comptroller), to the services for developing fiscal year 1978 revised and 1979 estimates, appear to be optimistic for some accounts when compared with historical actuals. For example, guidance furnished to the Army for the Other Procurement--Army account (direct program) proposed a first year obligation rate of 75 percent for the 1978-80 and 1979-81



programs, even though the past actual obligation rates noted on the guidance memo were 70.3 percent for the 1975-77 program, and 61.1 percent for the 1976-78 program. 1/

Therefore, although DOD has recognized that an estimating problem exists and has implemented procedures which are aimed at correcting the problem, they will have to continue to closely monitor their estimating procedures in an effort to make even further improvements in the system.

RECOMMENDATION TO THE  
SECRETARY OF DEFENSE

The Department of Defense should make certain that its new policies and procedures provide for closer monitoring of obligation projections at the Department level, and more effective use of existing management reports and data on obligations, in order to improve obligation estimates and analyses of variances between estimates and actuals.

RECOMMENDATION TO THE OFFICE  
OF MANAGEMENT AND BUDGET

The Office of Management and Budget should monitor the obligation rates reflected in Defense's obligation projections for procurement activities, with a view toward identifying possible misestimates, getting changes made or adding explanatory information to the budget, and if necessary, developing more detailed guidelines concerning estimating policies and procedures. The Office of Management and Budget should take a more active role to assure that the Congress will be provided the most accurate projections of obligations and unobligated balances, and the fullest explanations of major changes and variances from estimates.

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1/ The guidance was supplied to the services in a memo dated August 25, 1976, and was to be used in developing initial obligation estimates. The percentages may not, therefore, be identical to the final ones used to develop the estimates in the January budget submission (1979 budget).

## IDENTIFICATION OF RECOUPMENTS

Eliminating a buildup of unneeded unobligated balances within DOD programs would be possible if we identify recoupments (i.e., funds in excess of program needs) so that the funds could be made available for application where most needed. During the course of this review, we questioned representatives within DOD and the services, both at the headquarters and the field levels, to determine whether there is a systematic and regular process by which recoupments are promptly reported to higher authority. We found that excess funds are identified by program managers at command levels in the course of the continual management review, but that such excess funds are not systematically reported to higher levels.

The services use several methods, with varying frequency, to identify funds considered excess to current requirements. These can include:

- Review of unobligated balance amounts based on obligation target dates and fund expiration dates.
- Joint reviews held several times a year between representatives from various levels to discuss program status.
- Monthly reports submitted by Government-owned, Contractor-operated plants to identify excess funds, which are then deobligated and decommitted.
- Telephone calls and letters reporting occasional excesses to higher authority.

Even with the above review procedures, the services apparently could report excess funds sooner. Instances of possible excess obligational authority have been identified which could be recouped for use by DOD for higher priority projects or used to reduce future budget authority requests.

### Army Airmant Materiel Readiness Command

A significant balance of unobligated funds is carried at ARRCOM as unapplied reserve. The balance exceed \$40 million at June 30 of every year from 1975

to 1977 and reached \$97.7 million at September 30, 1976. Part of the reserve balance is from program years as far back as 1970. The reserve is basically the command's obligational authority that exceeded immediate needs and therefore was not obligated. The reserve is intended to provide funds for local reprogramming and for contingencies, such as price escalations and contractor claims from previous obligations.

The reserve originates from three sources: (1) the difference between the obligational authority ARRCOM receives to fund a program and the lesser amount released to the procurement office for obligating foreseeable needs, (2) unneeded funds later returned from the procurement office, and (3) minor amounts from contractor's discounts and scrap sales. A separate balance is recorded for each program year, but once funds are put into the reserve they are no longer identified by specific line item.

The reserve is reduced by releasing funds to the procurement office when obligation needs exceed previous releases for obligation or when contingencies occur. The reserve is available for any line item authorized for the same program year as the reserve balance providing the released funds. It is also reduced when funds are returned to higher authority.

To illustrate the significant reserves and the extended time periods that ARRCOM retained balances, the following schedule lists the balances by program year at June 30, 1975, 1976, and 1977 and at September 30, 1976. Only a current document was available to provide information on funds retained in the unapplied reserve from as far back as program year 1970. Old funds were also included in the reserve in prior years, but documentation is no longer available at ARRCOM to develop the amount. The June 30, 1977, data is from a special Army study made to determine amounts that could be returned to higher authority.

Table 4.7

ARRCOM Unapplied Reserve Balance

<u>Program year</u>	<u>June 30, 1975</u>	<u>June 30, 1976</u> (millions)	<u>September 30, 1976</u>	<u>June 30, 1977</u>
1970 and prior	\$	\$	\$	\$ 2.2
1971				1.4
1972				8.8
1973	5.9	8.8	11.4	5.4
1974	7.6	26.9	18.1	14.8
1975	21.2	2.7	8.3	-0-
1976	-	4.6	59.4	1.0
TQ	-	-	.5	3.1
1977	-	-	-	13.7
<b>Total</b>	<u>34.7</u>	<u>37.6</u>	<u>97.7</u>	<u>50.4</u>
<b>Total under 3 years</b>	<u>34.7</u>	<u>28.8</u>	<u>36.3</u>	<u>17.4</u>
<b>Total over 3 years</b>	<u>\$ -</u>	<u>\$ 8.8</u>	<u>\$11.4</u>	<u>\$33.0</u>

Although ARRCOM returns excess reserve funds to higher authority, they are not returned routinely and it is sometimes long after the program year appropriation expired. For example, ARRCOM returned funds following two ARRCOM-initiated studies in March and June 1977 that identified excesses from as far back as program year 1970. An ARRCOM official stated that these were the first comprehensive studies in several years. The March study identified \$2.5 million from 1971, and the June study \$35 million from almost every program year since 1970.

ARRCOM at least sometimes received more obligation authority than needed, retained the authority as reserve long after the pertinent program year and the period for obligation, and made only limited effort to identify and return unneeded authority.

Excess reimbursable authority at ARRCOM

At ARRCOM the reimbursable program unobligated balances grew from \$65.1 million at June 30, 1975, to \$278.5 million at September 30, 1976. Records are not available to show the balances at specific dates prior to June 30, 1975. Most of the substantial increases in the balance after the \$65.1 million at June 30, 1975, occurred during 1976 and pertained to reinstatements to program year 1975 FRA. The reinstatements were due primarily to cancelled orders from Southeast Asian countries that ceased hostilities.

Although balances are returned to higher authority, returns are sometimes long after the program year ended. For example, in May 1976, \$39.5 million of 1974 funds were returned after higher authority asked ARRCOM if it could spare the funds. ARRCOM returned \$20.8 million that it identified as excess in a March 1977 study, mostly from program year 1975. Not reflected in this decrease was another \$42.2 million returned September 30, 1977, following a June 1977 study. The studies identified excess from program years as far back as 1970.

Army Tank-Automotive Materiel  
Readiness Command (TARCOM)

Certain funds are retained within TARCOM in various kinds of reserve accounts, and are a significant part of TARCOM's unobligated balances. They include reserves for production, excesses, and applied funds. These funds can be transferred or reprogramed. The reserve for production is not estimated as part of budget costs for the tanks. However, at the time a contract is awarded, the Project Office sets aside a certain amount for unexpected production problems. As of August 31, 1977, this amounted to \$11.6 million of the unobligated balance for the M60 tank. Excesses accounted for \$7 million of the August 31, 1977, unobligated balance. Subsequently, in 1977 the M60 Project Office:

- Found a need for \$1.8 million.
- Retained \$3.2 million as excess.
- Transferred \$2.0 million to TARCOM's unapplied reserve account.

TARCOM's unapplied reserve account totaled \$86 million in September 1977. TARCOM officials determined that \$50 million was excess to its needs. TARCOM officials stated that they advise U.S. Army Materiel Development and Readiness Command (DARCOM) of the excess funds periodically. For example, TARCOM identified as excess \$12 million of unobligated funds for M113/M113A1 vehicles. These excesses related to Army direct funding for program years 1976 and the transitional quarter. According to TARCOM, \$10.6 million was returned to DARCOM and the balance of \$1.6 million was reprogramed within TARCOM for M113A1 vehicle modifications and transportation, and other vehicle programs. Procedures appear to be informal, however, since TARCOM officials could not provide documentation showing that they advise DARCOM periodically of excesses.

An unexpended balance of \$73.9 million for customer orders as of September 30, 1976, represents funds held back in a TARCOM holding account. Funds in this account are applied to the M113A1 vehicle but could not be obligated during the first year. These funds were intended to be used for future liabilities and contingencies such as price escalation, although TARCOM has specific reserves for price escalation. By letter dated January 4, 1977, DARCOM instructed its commodity commands, including TARCOM that all funds released to them should be reflected in their Management Report (1369). One year later (May 1977), TARCOM held \$92.7 million in this account, of which \$50.7 million related to the M113A1 vehicle. According to TARCOM, certain of these funds end up as excess funds.

A factor contributing to the unliquidated balances in the M60 tank program is that 216 tanks--costing about \$130 million--will not be delivered in calendar year 1977 as planned. We believe this estimate may be optimistic. To meet the March 1979 timeframe, the M60 Project Office is assuming that an average of 119 tanks can be produced each month during January 1978 through March 1979. However, an average of 78 tanks were produced each month during January 1977 to October 1977. Further, the foundry producing hull and turret castings is experiencing a high employee absentee and turnover rate. The Army has been optimistic before in estimating shortfalls. For example, the Army advised the House Appropriations Committee during the 1978 appropriation hearing that it would produce 1,206 tanks during calendar

year 1977 and the anticipated shortfall between 50 and 100 tanks would be made up during the fiscal year 1977 funded delivery period. However, the Appropriations Committee doubted that the 1,206 production goal could be met and recommended a reduction in funds of \$60 million or 100 tanks.

#### Our concern regarding recoupments

We have concluded that the services at the field level identify excess funds throughout the year that higher authorities could use for potential recoupment and reprogramming to other uses or to reduce future budget requests. The field retains some funds for contingency funds, unapplied reserves, and local reprogramming, but sometimes also returns unneeded funds to higher authority. Recent special studies indicate, however, that some field operations apparently could report unneeded funds to higher authority on a more timely basis with some additional effort.

Members of the Congress have asked whether recoupment information could be made available to them sooner than it is presently being provided. Since recoupments are regularly identified at the command level, any delay in providing this information to the Congress would have to be attributed to service/DOD delay in obtaining and reporting the information. Increasing the frequency of the joint program reviews (now semi-annual) could provide the services and DOD with more timely information on potential recoupment amounts. Another means of developing systematic reporting on recoupments would be to utilize the flash reporting system to identify excess amounts.

We are concerned with the lack of a systematic means for reporting recoupments, especially since we addressed this problem in a 1969 report. In our report, "Application of the Full Funding Concept and Analysis of the Unobligated and Unexpended Balances in Selected Appropriations" (B-165069, Feb. 17, 1969), we concluded that the recoupment of unneeded funds was receiving continuing attention at DOD. We went on to state:

Appreciation of the significance of the subject, however, varies among personnel responsible for administering contracts and programs. Many seem unaware of the possible impact that slowness in making excess funds available for other requirements would have on critical defense programs.

"In view of the large amounts of funds excess to program requirements which had been retained at some locations, we believe that the Office of the Secretary of Defense should consider developing additional controls to ensure that it is fully informed on the need for and the status of funds retained by the services for obligation."

In view of the large amounts of unobligated funds discussed in this report, which may be available for recoument if a systematic means for identifying them to higher authority existed, it is apparent that our concerns expressed in the report cited above are still valid.

RECOMMENDATION TO THE  
SECRETARY OF DEFENSE

The Department of Defense should make certain that the improvements they are making in their internal Defense reporting provide for the systematic identification of amounts, for review by service and department level officials, which have become excess to program funding requirements. This would also permit timely reporting to the Congress of the amounts determined to be excess obligational authority.



## CHAPTER 5

### FOREIGN MILITARY SALES

#### CHAPTER SUMMARY

- The executive branch has revised the procedures for recording budget authority for foreign military sales (FMS), effective in fiscal year 1977. The effect has been to reduce unobligated balances by about \$13 billion (estimated). The budget issues involved in this change are potentially far-reaching, and we will report on these matters in a separate study. (See p. 71.)
- Although a large increase in foreign military sales orders in recent years has increased workload on the services, Defense and the services cannot accurately assess the impact on staffing requirements--there is no system to adequately determine the number of personnel working on these sales. In view of this lack of reliable data, it is impossible to determine whether or not the 2 percent surcharge was sufficient. However, DOD raised the charge to 3 percent on November 30, 1977, effective for all sales cases received after October 1, 1977. (See p. 72.)
- Numerous Defense audit reports and GAO reviews have noted severe deficiencies in Defense budgetary and financial records on foreign military sales matters. The deficiencies have resulted in a loss of integrity concerning the information from these records, and a lessening of congressional control over foreign military sales. Executive branch officials acknowledge that many of these problems seriously impair Defense management control, and they are taking actions aimed at correcting these deficiencies. (See p. 80.)

#### BUDGET CONCEPTS CHANGE

In our briefing given in September 1977, we noted that the executive branch has changed its budgeting concepts for FMS, effective in fiscal year 1977. The new system changes the way budget authority is recorded for FMS and as a result will reduce by approximately \$13 (estimated) billion the unobligated balances which will be reported in the budget for the National Defense (050) function, and the Department of Defense Military (051) and Military Assistance (052) subfunctions. In short no longer will

total FMS orders (commitments) create obligational authority at the time the order is accepted from a foreign country. Budget authority will be recorded only to the extent that obligations will be incurred during the year under procurement actions (an incremental approach).

The budget issues involved in this change are potentially far-reaching. We were unable to resolve these issues within the time available for this study. We are continuing work on this matter and will report the results when we have completed our work.

#### FOREIGN MILITARY SALES AND DEPARTMENT OF DEFENSE WORKLOAD

During the past several years there has been increased congressional and public concern over the increase in the volume of foreign military sales by the United States. The rapid increase in the FMS program, due partly to a shift in U.S. policy from military assistance to military sales has sparked considerable controversy over the moral, political, and economic implications of the U.S. role in international arms trade.

The Congress has expressed concern, however, over the effect of a growing FMS program upon military department workload. It has also expressed a concern over the sufficiency of the 2-percent administrative surcharge and whether enough staff has been planned to cover a workload increase resulting from increased foreign military sales.

The growing FMS program has increased workload in the departments within DOD. The full extent of the problem, however, cannot be precisely measured because the Department of Defense and the Military services do not have a system through which they can identify the manpower actually involved in the FMS program. DOD recently increased the administrative surcharge from 2 to 3 percent on all FMS orders received after October 1, 1977.

#### Size of the FMS program

Foreign military sales have shown a dramatic increase during the 1970s. As seen in Table 5.1, FMS sales agreements in 1970 were less than \$1 billion. By 1972, orders had more than tripled to \$3.3 billion. By 1974, they had tripled again to \$10.6 billion. In 1975 and 1976 FMS orders dropped slightly to \$10.1 and \$8.7 billion respectively.

Although cumulative sales orders have grown dramatically, cumulative deliveries have not kept pace, resulting in continually rising undelivered orders. The large increase in undelivered orders is due to the increasing number of orders processed and the nature of the items ordered. Sophisticated aircraft, artillery, and tanks are delivered 3 to 5 years after the orders are placed.

Table 5.1  
FMS Orders

<u>Fiscal year</u>	<u>Sales orders</u>	<u>Cumulative (note a)</u>
	(000 omitted)	
1970	\$ 967,582	\$16,091,759
1971	1,563,226	17,654,985
1972	3,267,644	20,922,629
1973	5,766,225	26,688,854
1974	10,642,623	37,331,477
1975	10,123,451	47,454,928
1976	8,664,467	56,119,395
TQ	809,223	56,928,618

a/Cumulative from 1950.

As can be seen from the Table 5.2 schedule, undelivered orders have increased drastically since 1972 from about \$9 billion to \$31.8 billion at the end of the TQ. Undelivered orders may be used as an indicator of workload.

Table 5.2  
FMS Orders  
Deliveries, And Undelivered  
Orders: Cumulative Since 1950

<u>Fiscal year</u>	<u>Orders</u>	<u>Deliveries</u>	<u>Undelivered orders</u>
	(000 omitted)		
1970	\$16,091,759	\$ 9,224,528	\$ 6,867,231
1971	17,654,985	10,590,027	7,064,958
1972	20,922,629	11,955,593	8,967,036
1973	26,688,854	13,321,317	13,367,537
1974	37,331,477	16,259,247	21,072,230
1975	47,454,928	19,638,965	27,815,963
1976	56,119,395	23,720,141	32,399,254
TQ	56,928,618	25,133,912	31,794,706

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... of concern about the increase in military and civilian manpower devoted to foreign military sales and the possible resulting drain on manpower resources. The Senate Armed Services Committee in its report on the 1977 DOD authorization stated,

"The committee is concerned about the increases in military and civilian manpower devoted to foreign military sales and the possible resulting drain on manpower resources. Maritime Defense Department manpower devoted to the program will increase from 6,900 in fiscal year 1976 to 7,300 in fiscal year 1977. Over 60 percent of this manpower are civilian personnel."

The Senate Appropriations Committee also expressed concern. In its report on the DOD appropriation bill for fiscal year 1978 it stated,

"The Committee continues to be concerned with the large increases in administrative costs of the foreign military sales program. There is a dramatic growth in a three-year period--\$87.2 million, or 70 percent. And, if fiscal 1978 were to be included, the growth would be even more substantial."

The following table appeared in the Senate Appropriation Committee's report (Report No. 95-325) on the 1978 appropriation bill:

Table 1  
 Administrative Costs  
 of the Foreign Military Sales Program

Category	Fiscal year 1976	Fiscal year 1977		Fiscal year 1978	
		Total	Costs	Total	Costs
		(Millions)	(Millions)	(Millions)	(Millions)
Appropriated	1,444	1,444	1,444	1,444	1,444
Unappropriated	1,027	1,027	1,027	1,027	1,027
Total	2,471	2,471	2,471	2,471	2,471
Change from 1976			87.2		87.2
Percent change			3.5%		3.5%

Table 1 continued on next page.

Table 2 continued on next page.

The preceding table illustrates the increase in manpower devoted to the FMS program during the last few years. It is noted in chapter 6 that the overall personnel in DOD has been in a steady decline. The personnel devoted to the FMS program, however, have been increasing.

The manpower situation was discussed by the Congressional Budget Office in its May 1976 staff working paper on "Foreign Military Sales and U.S. Weapons Costs." It reported that the expanding number of DOD personnel involved in FMS has led to concerns over manpower strains. While DOD tries to recover full costs for manpower, in fact DOD's manpower has steadily declined over the last 5 years while the FMS workload has increased. Most observers believe that there is a personnel shortage in the FMS area which impacts upon other DOD functions. The CBO also noted that DOD does not have ready access to the number of personnel who work on FMS. It continued that the Defense Security Assistance Agency estimated that 4,800 staff-years, (military and civilian) were devoted to FMS activities in FY 1975.

We can, in specific instances, determine the effect of FMS on workload. On an overall basis, however, we can only generalize that FMS has increased workload on a broad basis.

--At the Army's Armament Materiel Readiness Command, we found that FMS workload has had an adverse impact on the procurement production process. Although there has been a decline in new orders, there has been a higher dollar value for new orders and deliveries and an increase in the number of Production Work Directives applicable to FMS. A minimum increase in FMS has necessitated a 40 percent increase from 86 to 123 in staff of the International Logistics Directorate and may be contributing to the workload problems of the Procurement and Production Directorate.

--At the Army's Missile Readiness Command, Finance and Accounting personnel estimated that until about 1975, FMS represented about 20 percent of the Finance and Accounting workload but that this has now increased to about 60 percent.

On July 6, 1976, we issued a report to the Congress, on "Highlights of a Report on Staffing and Organization of Top-Management Headquarters in the Department of Defense" (FPCD-76-35A). This report stated that in 1975 eight Army headquarters offices required an additional 1,026 civilian and 69 military positions to satisfy the additional workload demands generated by FMS transactions. It also reported that about 50 percent of the workload at the Air Force's top-management headquarters stemmed from requirements of outside authorities, an example of which was FMS which increased by 17 percent over fiscal year 1974.

Inadequate system to determine number of FMS personnel

In a recent report to the Senate Committee on Armed Services entitled, "Inadequate Methods Used to Account for and Recover Personnel Costs of the Foreign Military Sales Program" (FGMSD-77-2), October 21, 1977, we stated that DOD does not have an adequate system for accounting for and reporting the number of personnel working on the FMS program. This has required that one-time studies be made when congressional committees need FMS personnel statistics.

Our review of recent DOD efforts to determine the number of FMS personnel showed that the studies were carried out in such an inexact manner that they are of little value in the congressional decisionmaking process.

DOD is required by law to provide the Congress with recommendations for personnel levels for the next fiscal year. These recommendations are presented in the annual Defense Manpower Requirements Report by programming and planning categories. Information on personnel in the FMS program are presented in a section of the report entitled "Support to Other Nations."

DOD's fiscal year 1977 estimates, by military service, of FMS personnel in the support to other nations category are shown below.

<u>Service</u>	<u>FMS personnel</u>
Army	1,100
Navy	1,700
Air Force	<u>4,000</u>
Total	6,800 =====

Each of the military services used significantly different criteria on the number and type of FMS personnel included in the report. The Army estimate did not include personnel for (1) administrative support for the FMS program, (2) maintenance, packing, crating, and handling FMS sales items, or (3) FMS sales training programs. It was estimated that the Army's FMS personnel figure for 1977 was underestimated by at least 5,400 by the mission of the personnel working on these functions.

The Navy's estimate included both full-time and staff-year equivalents of some of its part-time personnel working on FMS activities. The Navy also reported personnel working on FMS in other programming and planning categories of the manpower report.

The Air Force estimate of personnel included only those considered full-time FMS personnel. Estimates of Air Force staffing indicated that at least 1,900 staff-years of part-time effort on the FMS program were reported in the programming category most closely associated with the primary mission of the personnel.

Because the DOD manpower requirements report did not use consistent criteria, the Senate Committee on Armed Services requested a separate estimate of personnel needed for the FMS program in fiscal year 1977. The estimate furnished the Committee during the February 1976 hearings showed that the military services expected that 7,300 full-time personnel and 6,300 part-time staff-years of effort would be required. The personnel estimates that the military services furnished to the Committee are as follows:

Table 5.4  
Service Estimates of FMS Staff

Staffing for fiscal year 1977			
(note a)			
	<u>Military</u>	<u>Civilian</u>	<u>Total</u>
<b>Army:</b>			
Full-time end strengths	500	1,600	2,100
Part-time staff-years	(b)	3,200	3,300
	<u>500</u>	<u>4,900</u>	<u>c/5,300</u>
<b>Navy:</b>			
Full-time end strengths	300	900	1,200
Part-time staff-years	<u>500</u>	<u>1,300</u>	<u>1,800</u>
	<u>800</u>	<u>2,200</u>	<u>3,000</u>
<b>Air Force:</b>			
Full-time end strengths	2,100	1,900	4,000
Part-time staff-years	<u>400</u>	<u>1,400</u>	<u>1,900</u>
	<u>2,500</u>	<u>3,300</u>	<u>5,900</u>
<b>Total:</b>			
Full-time end strengths	2,900	4,400	7,300
Part-time staff-years	<u>1,000</u>	<u>5,900</u>	<u>6,900</u>
	3,900	10,300	14,200
	=====	=====	=====

a/Some totals have been rounded.

b/Fewer than 50 spaces.

c/In subsequent testimony during hearings held by the Senate Committee on Armed Services in February 1976, the Secretary of the Army stated that about 6,000 full-time Army military and civilian personnel were engaged in work related to the FMS program.



The individual military services' estimates were based on a onetime compilation of personnel requirements. As far as we could ascertain, no precise measures or methods for developing the personnel data were prescribed. Moreover, in a number of instances we found that staffing statistics furnished to the Committee were understated, and in other instances sufficient documentation supporting the estimates was not available for review.

We therefore suggested that the Secretary of Defense prescribe standard procedures for identifying and reporting estimated and actual staff-years of effort devoted to the foreign military sales program. To the extent feasible, this system should be based on actual effort, and in instances where estimates are required, they should be based on actual workload, data time standards, and management engineering techniques.

We also suggested that the Secretary of Defense direct the three military services to use a consistent definition to report FMS personnel figures included in the support to other nations category of the annual Defense Manpower Requirements Report. Consistent with congressional interest in FMS activities, all personnel required for the program should be reported in the support to other nations category.

In an August 17, 1977, letter, the Assistant Secretary of Defense (Comptroller) agreed that DOD lacks an adequate system for determining the number of personnel involved in the foreign military sales program. He also stated that DOD has recently initiated a formal project to develop a standard manpower accounting system for determining the amount of Defense effort that supports the program. The Comptroller believes that, when completed, the system will provide information for internal Defense management decisions as well as data to meet reporting requirements established by the Congress. According to the Comptroller, initial data from the new standard system are scheduled to be available for the fiscal year 1979 Defense Manpower Requirements Report to the Congress.

#### Adequacy of the surcharge

DOD adds a 3 percent surcharge (formerly 2 percent) to the cost of the Defense article or service being sold to recover the costs of employees involved in administrative or management services of the FMS program. In addition to recovering personnel costs which amount to 90 percent of the administrative expense, the surcharge is also

used to recover other costs such as travel, rents, utilities, travel, and office supplies.

We recently issued a report on October 21, 1977, entitled "Inadequate Methods Used To Account For and Recover Personnel Costs of the Foreign Military Sales Program" (FGMSD-77-22). In this report we concluded that DOD has no assurance that the 2 percent administrative surcharge recovers the full cost of administering the FMS program.

We found that although the major part of the costs of administering the program is for personnel, there is no system to account for the time DOD personnel spend in administering the program. We also found that the factors included in the administrative surcharge to recover retirement costs of military and civilian personnel are not high enough to recover the full cost.

On November 30, 1977, the Assistant Secretary of Defense (Comptroller) issued an instruction that increased the administrative surcharge on FMS cases from 2 percent to 3 percent on all orders accepted after October 1, 1977.

We have also been requested by the Subcommittee on Defense, Senate Appropriations Committee, to make an evaluation of the surcharge that would be necessary in order to collect the full costs incurred by DOD in administering the FMS program. This work is currently underway and will be the subject of a future report.

### Conclusions

The growth of the FMS program has increased the workload of the military departments at a time when overall DOD employment has been declining. We have not been able to measure effect because the Department and the Services do not have a system by which they can identify the total personnel working on the FMS program. DOD is currently working on a system to identify such personnel.

As an interim measure to fully recover costs of administering the FMS program, DOD is increasing the FMS administrative surcharge on FMS from 2 percent to 3 percent.

### OTHER AUDIT FINDINGS CONCERNING FMS

For the past two years the FMS program has been the subject of many audit reports both by GAO and other agencies. Generally these reports have noted overall weaknesses in the budgetary, accounting and management systems for the FMS

program. The deficiencies in the FMS accounting and financial management reporting systems have resulted in a loss of integrity concerning accounting information and a lessening of congressional control over DOD's FMS activities. A number of the audit reports, which address the specific weaknesses in the FMS program are highlighted below.

#### GAO Reports

- . "Foreign Military Sales and Growing Concern" (Report to the Congress; June 1, 1976; ID-76-51.)

This report is an overview of major FMS issues. Included is a discussion of the recovery of full costs of military goods and services sold to foreign countries.

- . "Millions of Dollars of Costs Incurred in Training Foreign Military Students Have Not Been Recovered" (Report to the Congress; December 14, 1976; FGMSD-76-91.)

Many millions of dollars of cost incurred in training foreign students have not been recovered due to faulty billing, pricing, and collecting systems. Recovery of the full cost of training is required by law. GAO recommended that DOD increase tuition prices and attempt to recover from foreign governments the amounts that should have been billed but were not.

- . "Reimbursement for Technical Assistance and Training Services Provided to Foreign Governments by the Department of Defense" (Report to the Secretary of Defense; July 13, 1976; FGMSD-76-64.)

In their "Report on Review of Security Assistance Programs in Iran," the Office of the Deputy Assistant, Secretary of Defense (Audit) reported roughly \$28.5 million in costs incurred by the U.S. Government in fiscal year 1975 would not be recovered. The Defense auditors concluded that much of the \$28.5 million should be charged to Iran. GAO reviewed the DOD audit report and recommended that the Director, Defense Security Assistance Agency attempt to recover from Iran all reimbursable costs not billed and prevent such oversights in the future.

- . "Reimbursement to the Marine Corps for Costs Incurred in the Training of Foreign Military Students" (Report to the Lt. General H.M. Fish, Director, Defense Security Assistance Agency and Deputy Assistant Secretary (ISA), Security Assistance; July 15, 1976; B-165731.)

Prior to January 1, 1976, the Marine Corps did not bill foreign governments for all training provided under foreign military sales contract. As a result, the Marine Corps did not recover approximately \$252,000 for the training of foreign students for the 6-month period ended December 1975. We recommended that the Marine Corps attempt to recover from foreign governments all costs incurred for training provided without charge during the last three years and insure that in the future the Foreign Assistance Act appropriation be charged for training of foreign students.

- . "Reimbursement for Foreign Military Student Training" (Report to the Secretary of Defense; December 1, 1975; FGMSD-76-21.)

During fiscal year 1975, the Air Force did not recover from foreign governments at least \$5.7 million in costs incurred in training foreign students primarily because the Air Force used erroneous tuition rates in billing foreign governments. GAO recommended that prompt action be taken to insure correct billing in the future.

- . "Reimbursements for Foreign Military Training" (Report to House Committee on Appropriations; May 6, 1977; FGMSD-77-40.)

Some improvements have been made in DOD billing procedures for FMS but several problems remain in providing the recovery of the full cost of training foreign students. DOD had not identified the total amounts of reimbursement in the fiscal year 1978 budget for foreign military training. GAO could not determine if adequate amounts of estimated reimbursements were offset against direct appropriations in the budget.

- . "Incomplete Reimbursement to DOD by Foreign Governments" (Report to Secretary of Defense; September 3, 1977; FGMSD-77-43.)

The Department of Defense is experiencing problems in recovering normal inventory losses on sales to foreign governments. These problems had occurred because the Department's pricing policies and pricing systems used by the military services were inadequate. GAO recommended that DOD change its pricing policy for FMS to require the inclusion of normal inventory losses in charges to foreign governments.

- . "Centralization of Billing and Collecting Functions of the Foreign Military Sales Program" (Report to the Secretary of Defense; September 16, 1977; FGMSD-77-46.)

DOD has centralized FMS billing and collecting functions in the new Security Assistance Accounting Center. GAO believes centralization can improve accounting systems and financial management of the FMS program. However, the Center's model (the Air Force Accounting and Finance Center) had some weaknesses, as did the Navy and Army counterparts. These weaknesses (delayed billing, overdue collections, etc.) could adversely affect the new centralized center. Without concluding the new Center will have problems, GAO recommended the Defense Audit Service to review the Center's billing and collecting system.

- . "Reimbursements for Transportation Support of the Foreign Military Sales Program" (Report to House Committee on Appropriations; May 4, 1977; LCD-77-225.)

GAO was unable to determine what portion of the budget for transportation of things represented support for the FMS program. Several types of FMS transport modes should have been classified as reimbursable program costs instead of direct program costs.

- . "Use of Appropriated Funds for Foreign Military Sales of Stock Items" (Report to Secretary of Defense; May 27, 1977; LCD-77-222.)

Certain procedures and practices for handling direct foreign military sales have resulted in unnecessary and illegal expenditures of appropriated funds. Contrary to Defense policy, direct foreign military sales issue experience is being used in establishing stock levels, and direct sales requisitions are being filled without appropriate regard for stock balances.

- . "Serious Breakdown in the Army's Financial Management Systems" (Report to the House Committee on Appropriations; November 5, 1976; FGMSD-77-74.)

The Army had experienced a serious breakdown in financial management and control over its procurement appropriations, resulting in several violations of the Anti-Deficiency Act and an inability to pay hundreds of contractors. The violations of the Anti-Deficiency Act are a result of poor accounting and reporting practices including overstating orders from foreign governments for goods and services.

- . "Loss of Accounting Integrity In Air Force Procurement Appropriations" (Report to the House Committee on Appropriations; November 1, 1977; FGMSD-77-81.)

Because improper accounting procedures were used for several years, the Air Force does not know the status of its procurement appropriations for several years. This financial management problem was created by foreign military sales customer orders being treated as increases to the Air Force's obligational authority.

- . "Foreign Military Sales and Growing Concern" (Report to the Congress; June 1, 1976; ID-76-51.)

This report is an overview of major FMS issues. Included as an area of discussion is the recovery of full cost of military goods and services sold to foreign countries.

#### Other agencies reports

- . Air Force Audit Agency: "Foreign Military Sales-Financial Management," July 9, 1976.

The sudden growth of FMS sales, combined with limitations in accounting and management information systems had compounded the FMS financial management difficulties. The Air Force Audit Agency noted weaknesses in pricing FMS material and services. Discrepancies included both administrative errors and the failure to identify all costs incurred to develop, manufacture, and provide a complete product. Accounting procedures for Air Force procurement appropriation reimbursements did not provide visibility to determine whether accounts were in balance. Appropriation year integrity and management/audit trails were lost contributing to lack of management controls over the FMS program.

- . Air Force Audit Agency: "Foreign Military Sales-Selected Policies and Procedures," February 16, 1977.

The explosive growth of the FMS program has strained existing management systems, particularly those concerned with the acquisition and logistics support of weapons systems. Management of the FMS program was complicated because the visibility over sales varied and responsibilities were fragmented.

- . Congressional Research Service: "The Foreign Military Sales Trust Fund," January 15, 1976.

The FMS Trust Fund has a budget authority and outlay impact on the total Defense budget. The volatility of the foreign military sales program and the inclusion of the FMS funds in the national defense functional category of the budget complicated the budget process established by the

Congressional Budget Act. Errors in budget estimates could result in exceeding the budget authority and outlay targets by several billion dollars.

## CHAPTER 6

### STAFFING ASPECTS

#### CHAPTER SUMMARY

- Many Defense program officials cited staffing deficiencies as a possible contributing factor to the unobligated balances, but did not consider this to be a serious factor. An exception may exist at the Army's Armament Materiel Readiness Command, where a rising number of unprocessed Program Work Directives raises the possibility of staffing shortages. (See p. 93.)
- Manpower requirements are based on projected workload not simply projected budget dollar levels. (See p. 86.)
- Difficulties exist in identifying budget execution personnel because of (See p. 90.):
  - the method of developing and presenting manpower requirements;
  - the type and variety of personnel directly and indirectly involved in budget execution; and
  - flexibility at various levels for making changes within established manpower and monetary ceilings.

#### INTRODUCTION

The question has been raised about whether DOD consciously requested an increase in staffing to execute the large increases in programs funded in fiscal years 1976, 1977, and 1978.

According to OSD personnel, DOD does not base its manpower requirements on the amount of funds provided for programs. Manpower strength requirements are determined on the basis of projected workload. They do not "factor in" additional manpower just because money is increased. Although staffing deficiencies exist in some programs, they are not generally considered to be a serious problem for budget execution.



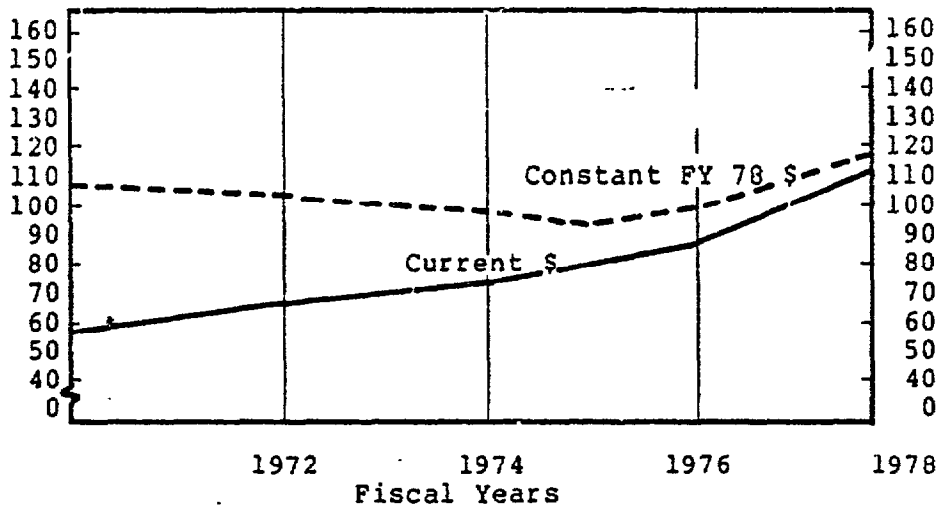
CHANGES IN TOTAL OBLIGATIONAL  
AUTHORITY AND MANPOWER

Increases in total obligational authority (TOA) <sup>1/</sup> do not necessarily mean increases in workload. But even if workload were to be measured by increases in TOA, the effects of inflation should be removed to give an indication of the trends in obligational authority in real terms.

The graph below depicts these trends after adjustment for inflation. In constant 1978 dollars, DOD's TOA actually declined from 1972 to 1976. From 1976 to 1978, there has been a slight increase in real TOA--approximately 5 percent from 1976 to 1977 and 6 percent from 1977 to 1978. This is compared to an absolute increase of approximately 12 percent from 1976 to 1977 and 11 percent from 1977 to 1978. <sup>2/</sup>

DOD Baseline Forces Budget Trends  
(TOA - Billions)

\$ Billions



<sup>1/</sup>TOA is considered a better indicator of DOD program trends than budget authority. TOA is the value of the direct defense program for a year, and is not affected by major financing swings such as stockpile sales or FMS transactions.

<sup>2/</sup>Source: "The FY 1978 Department of Defense Budget," Armed Forces Comptroller, Feb. 1977, Vol. 22, fi.

As obligational authority has increased, the manpower strengths have decreased. These decreases have been the result of a conscious effort by DOD to restrain the growth in manpower costs. The table on the following page shows the manpower cost and strength trends. As can be seen, the reduction in manpower strengths is not followed by decreased manpower costs. This reflects the increased costs of manpower to the military establishment. Table 6.1 below shows how these manpower costs have escalated over the years.

Table 6.1  
DOD/MAP Manpower Cost Indices  
(Base Year--FY 72)

<u>Year</u>	<u>Index</u>
1972	100
1973	107.3
1974	117.0
1975	130.9
1976	140.7
1977	144.3
1977	149.9
1978	158.8

Although overall strengths have decreased, there are individual areas in which manpower has increased. For example, budgeted civilian strengths in the Defense Contract Audit Agency increased by 3 percent from fiscal year 1976 (3,431) to fiscal year 1978 (3,538) while the total DOD civilian authorization requests decreased 5 percent (from 1.08 million to 1.03 million). The increase was due to a greater workload primarily from increased DOD procurement. 1/

OMB Guidance on Estimates  
of the Number of Personnel

OMB Circular A-11, 2/ provides guidance on estimates relating to numbers of personnel. It says that estimates of personnel requirements for measurable workloads should be

1/Review of "obligation" shortfalls in a number of programs showed that the slowness of contract audits contributed to the shortfall.

2/"Preparation and Submission of Budget Estimates," June, 1977, sec. 13.3; p. 12.

Table 6.2  
Manpower Cost Trends Summary

FY 78  
President's  
budget request

	<u>FY 72</u>	<u>FY 73</u>	<u>FY 74</u>	<u>FY 75</u>	<u>FY 76</u>	<u>FY 77</u>	<u>FY 78</u>
	-----(\$ billions)-----						
<b>Outlays:</b>							
Manpower (dollars)	43.5	44.5	46.8	51.2	53.6	57.2	61.0
Total defense (dollars)	76.0	73.8	78.4	86.0	88.5	98.3	109.7
Percent of defense	57	60	60	60	61	58	56
<b>TDA:</b>							
Manpower (dollars)	43.7	45.6	47.9	51.2	54.5	57.5	61.3
Total defense (dollars)	77.5	80.1	85.0	87.8	97.5	110.2	120.4
Percent of defense	56	57	56	58	56	52	51
<b>Budget authority:</b>							
Manpower (dollars)	43.6	45.7	47.9	51.4	54.4	57.4	61.2
Total defense (dollars)	78.0	80.4	88.9	111.5	102.2	106.6	117.7
Percent of defense	56	57	54	56	53	54	52
<b>End strengths, regular employees:</b>							
Active military	2,322	2,252	2,161	2,127	2,081	2,083	2,089
<b>Civilians:</b>							
Direct hire	1,049	998	1,015	989	960	948	943
Indirect hire	110	102	94	89	86	88	87
<b>Total</b>	<u>1,159</u>	<u>1,100</u>	<u>1,109</u>	<u>1,078</u>	<u>1,046</u>	<u>1,036</u>	<u>1,031</u>
<b>Total</b>	<u>3,481</u>	<u>3,352</u>	<u>3,270</u>	<u>3,205</u>	<u>3,127</u>	<u>3,124</u>	<u>3,120</u>
	*****	*****	*****	*****	*****	*****	*****

based on forecasts of workload and employment productivity wherever feasible.

This OMB guidance states that the estimates for staffing requirements will assume that improvements in skills, organization, procedures, and supervision will steadily increase employee productivity and at the same time maintain adequate quality. Personnel currently authorized will be utilized to the maximum extent in staffing new programs and expansions of existing programs, and a reduced number of personnel should generally be planned where the workload is stable. Estimates of staffing requirements for ongoing and new programs will be based upon quantitative forecasts of workload for each program, together with adequate substantive data for connecting workload to required personnel. Increases in staffing will be included in estimates only when it is demonstrated that essential functions cannot be performed with existing employees.

DIFFICULTIES IN IDENTIFYING  
BUDGET EXECUTION MANPOWER

Defense manpower requirements are described in terms of the Defense Planning and Programming Categories. The categories aggregate activities performing similar functions. These categories are:

1. Strategic forces.
2. General purpose forces.
3. Auxiliary forces.
4. Mission support forces.
5. Central support forces.
6. Individuals.

This method of developing and presenting manpower requirements does not permit a breakout of particular functional areas such as accounting or procurement or other areas related to budget execution.

A second difficulty in determining whether sufficient staffing is available is identifying the "classification" of people involved in budget execution. There are not necessarily specific job classifications or types of people devoted to budget execution. Those personnel with classically "budget" job titles may or may not be involved in budget execution or they may spend little time with the budget execution function. An accountant, for example, may have nothing to do with budget execution but work with recording and reporting on budget execution. A program manager, however, with a job classification not normally associated with the

budgetary function may have a great impact on budget execution.

In our review of the staffing and organization of DOD top management headquarters, <sup>1/</sup> a survey was made to determine the degree of involvement of the top management headquarters in the three budget activities--formulation, justification, and execution. In relation to budget formulation and justification, very little time is spent on budget execution. The conclusion is that budget execution is done at a lower level than the eight headquarters organizations.

Even if the requirements for budget execution manpower could be determined, the process of filling the requirements often means that the requirements may not be met. There is often a time lag of several months between the determination of a staffing requirement and the placement of a person(s) in the position(s). Also within the manpower and monetary ceilings directed by the Congress, the services, and subsequently the lower level commands and field organizations, have flexibility for the types of personnel hired and when they are hired. Changes can be made based on changing requirements and priorities and on local funding limitations or restrictions.

#### THE EFFECT OF STAFFING ON BUDGET EXECUTION

In April, 1977, OSD published the results of a study to determine the principal reasons why DOD first year obligation goals were not being met. Fiscal year 1976 was selected for analysis with obligation status as of June 30, 1976. Ten primary reasons were listed for obligational shortfalls, one of which was "Critical staffing deficiencies, particularly in Navy and Army." Eighteen out of 61 (about 30 percent) programs had reported staffing deficiencies as a reason for the obligational shortfall. Six out of 18 were Army programs, nine of 19 were Navy programs, and 3 out of 24 were Air Force programs.

Although it is difficult to "pigeonhole" the reasons for the shortfalls, our review of the OSD study and selected procurement actions raised questions as to (1) whether some of

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<sup>1/</sup>"Suggested Improvements in Staffing and Organization of Top Management Headquarters in the Department of Defense," FPCD-76-35, Apr. 20, 1976.

the staffing deficiencies existed, (2) whether the deficiencies were related to "budget execution," and (3) whether other problems or factors outweighed the staffing deficiencies.

#### Existence of staffing problems

In the OSD study, a narrative on the factors contributing to the obligation shortfalls (for the line item programs under review) was followed by a summarization of the factors. In some cases, the narrative did not discuss staffing problems, yet the summary included staffing as a factor contributing to the shortfall. For example, the following reasons were given in the narrative for the obligations shortfall in the Army loader scoop with backhoe program:

1. Delay in program manager receiving funds (unable to proceed on basis of continuing resolution).
2. Reorganization turbulence when funds arrived.
3. Delay in receiving winterization requirements.

In summarizing these reasons, the OSD study gave:

1. Program/budget turbulence (program quantity change).
2. Fund availability (too late).
3. Staffing deficiencies.

This same lack of an apparent relationship between the narrative (no discussion of staffing) and the summary (staffing cited as a factor) existed for several other items--aircraft common ground equipment (test set and jet engine test stand); LF radio beacon; night vision goggles; and radio set.

#### Relationship of staffing deficiencies to budget execution

As stated earlier, it is difficult to identify the people directly involved in budget execution. Often a staffing problem is in an area not directly related to budget execution, but which impacts on the execution process. For example, the shortage of contract audit personnel was cited in a number of cases (the OSD study) as a reason for shortfalls. 1/

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1/ The Defense Contract Audit Agency has since requested and gotten an increase in staffing.

Shortages in areas related to program technical work, processing, engineering change orders were cited. Another problem was in recording the obligations. The OSD study stated as a factor, "Obligation reporting lags, primarily in Navy (caused by personnel and equipment shortages)." These staffing problems, though not directly related, can cause delays in budget execution.

#### Relative importance of staffing deficiencies

None of the programs reviewed in the OSD study or in our review of unobligated balances gave staffing deficiencies as the sole reason for the obligation shortfalls or the unexpended balances. The OSD study did not quantify the effect of the various factors on the shortfall. With rare exceptions, our review of unobligated balances also did not give a dollar amount for staffing problems contributing to the balances. Therefore, it is not known whether the staffing deficiencies contributed greatly to the obligational shortfall or to the unobligated balances.

For example, in the F-14A case in the OSD study, inadequate manning authorized to accomplish timely procurement was given as a reason for the shortfall. In addition, extensive negotiations with the contractor were necessary to clarify specifications and costs which caused approximately a 1-year delay. Whether increased staffing would have ended the disagreement over the contractors' labor and overhead rates or helped get ill-defined specifications "pinned down" is unknown. In our review of the F-14 unobligated balances (including the 1976 year), the project office did not give staffing as a significant reason for the balances. Project officials stated that they did not consider the balances a problem and attributed them primarily to full funding and the inherent long leadtime of aircraft procurement.

Our review of three Army missile programs (Hawk, Dragon, and TOW) showed that for a 5-year period (1972-1977) only the Hawk program officials attributed a part of the unobligated balances in 1 year to a staffing shortage. In 1974, \$2 million out of the \$8.7 million balance was attributed to a personnel shortage--insufficient personnel available to determine the scope of work for a particular field facility. Since then the Hawk program staffing level has increased significantly. Here again, the contribution of staffing deficiencies to the balances was not great; and the personnel shortage may not be directly related to budget execution.

Our review of certain ammunition procurements by the U.S. Army Armament Materiel Readiness Command (AAMRC)

revealed that the number of procurement work directives, a measure of workload received and processed, increased by more than 67 percent and 24 percent respectively, while the staff at ARPCOM actually increased only 6.7 percent (2,553 to 3,595). Although staffing inadequacies appear to be a problem at ARRCOM, we still do not know if they outweigh other causes of unobligated balances.

Project officials and contract directorate officials in Naval Sea Command (shipbuilding and conversion account) pointed out that so many variables affect the time required to award a contract that it is difficult to separate out a single cause. It was their opinion, however, that the low manning and increased workload was delaying contracts and causing an increased use of letter contracts--leading to unobligated balances. The officials could not quantify the effects.

Our review of Navy and Air Force aircraft procurement also gave no indication of serious staffing problems.

#### CONCLUSION

An increased budget does not necessarily mean an increased workload. If obligational authority were to be used as a partial measure of workload, it would have to be measured in real terms, i.e., after considering the effects of inflation. When this is done, it can be seen that the increase in TOA is slight--not more than 5 to 6 percent per year. The significance of this increase, when spread over the many programs and people within DOD, would not appear to have a significant effect on workload requirements.

Although there are increases in particular areas, overall manpower strengths have been declining in an effort by DOD to offset the increasing cost of manpower. The manner in which DOD presents its manpower requirements, the number and variety of personnel directly and indirectly involved in budget execution, and the flexibility allowed within approved strength and monetary ceilings makes it impractical within the scope of this study to determine the number of people involved in budget execution.

Our discussions with DOD officials, including command level personnel, did not generally reveal evidence that understaffing in the budget execution function was a serious problem. Many factors contribute to unexpended balances. On some projects, staffing deficiencies have been cited by project officials as contributing causes to the obligational shortfalls or unobligated balances, however, the relative



importance of the various factors is difficult, at best, to determine. The project officials do not for the most part consider them serious. The OSD study called staffing shortages in the Army and Navy critical. Our review of the causes of unobligated balances and our review of the OSD study leads us to believe that other factors outweigh the staffing shortages.

There are possible exceptions to this, however--individual programs where budget execution may be significantly affected by staffing problems. This may be the case in the Army's ammunition procurements at its Armaments Materiel Readiness Command (see preceding discussion, p. 93.).

Even where significant staffing deficiencies exist, increases in manpower may not be the most efficient, economical solution. Detailed workload/manpower studies would be required to determine the extent of the deficiency and the manner in which it should be corrected. Increasing productivity of existing personnel can lead to greater, more efficient output.

DOD has a continuing goal to increase manpower productivity. This is to enable it to maintain or decrease manpower requirements to constrain the growing manpower costs, while hopefully at the same time maintaining acceptable levels of output and military readiness. Increased productivity can be accomplished in a number of ways, including providing incentives to personnel to work more effectively and efficiently, using automatic data processing where applicable, and adjusting priorities by spending less time on or deferring low payback work.

1. Review of all ship construction invoices for 1952.

2. Review of all ship construction invoices for 1953.

3. Review of all ship construction invoices for 1954.

4. Review of all ship construction invoices for 1955.

5. Review of all ship construction invoices for 1956.

6. Review of all ship construction invoices for 1957.

7. Review of all ship construction invoices for 1958.

8. Review of all ship construction invoices for 1959.

9. Review of all ship construction invoices for 1960.

-NAVSEA considers its estimates of inflation more accurate than those based on OSD supplied rates. They are requesting OSD allow continued use of the NAVSEA derived inflation estimates.

-Prior to fiscal year 1976, neither OSD nor Congress monitored movement of escalation and cost growth funds between ship programs. Beginning in fiscal year 1976 re-programings of these funds involving more than \$4,999,000 to an existing program or \$1,999,000 to create a new entry requires notification to Assistant Secretary of Defense (Comptroller).

#### INTRODUCTION

We were asked if contingency funds were added on at successive levels in the budget review process. The implication is that these add-ons at successive levels of review inflate the budget estimate.

Our review of contingencies relates primarily to the procurement account. Contingencies to cover pay raises and the amount appropriated to the Secretary of Defense to cover increases in the research and development appropriation are not covered. In addition, it does not cover the budgetary reserves authorized under the Antideficiency Act (31 U.S.C. 665) as amended by the Impoundment Control Act of 1974.

#### DEFINITIONAL DIFFERENCES AND THE FULL FUNDING POLICY

A contingent liability is defined as a conditional commitment which may become an actual liability because of a future event beyond the control of the Government. <sup>1/</sup> The dictionary defines a contingency as "a possible or not unlikely event or condition."

In discussing the inclusion of contingencies in the budget estimates with DOD officials, there were conflicting statements on whether there are contingencies included in the budget estimates. The differences of opinion can be basically explained in terms of "known-unknowns" and "unknown-unknowns." When contingencies are referred to as

<sup>1/</sup>"Terms used in the Budgetary Process," by the Comptroller General of the United States, PAD-77-9, July 1977.

unknown-unknowns, funds are not included in the budget estimate. OSD does not allow inclusion of estimated funds for unanticipated contingencies or costs.

Under DOD's best estimate, full funding policy, the estimate for known-unknowns is provided for. The known-unknowns are those "possible or not unlikely event(s)" which may become an actual liability. DOD Directive 7200.4, "Full-Funding of DOD Procurement Programs," says that under the full funding policy "each annual appropriation request must contain the funds estimated to be required to cover the total cost to be incurred in completing delivery of a given quantity of usable end items." The fully funded estimate is the best estimate of this total cost.

A part of this estimate is for such things as price escalation, cost overruns, engineering changes, contract incentives, etc. These items will not be obligated for until they actually occur and the amount is determined. These are things which will probably occur based on past experience or contract clauses.

Engineering changes are the rule rather than the exception in the procurement of weapon systems and equipment. But these changes can be made for a variety of reasons, including to fix equipment deficiencies or improve capability or reliability. The estimate will include funds for such changes. The exact nature and timing of the changes is not known. However, experience has shown that during development and production there can be hundreds, even thousands, of engineering changes. Once the exact need for a change has been identified and approved by contract amendment, the obligation is incurred. The amount included for the changes varies from program to program.

Another area often discussed in the contingency area is contract target vs contract ceiling and contract incentives. When the contract is negotiated, the contract target cost is obligated; however, there is a contingent liability up to the contract ceiling. Funds will be requested above the target cost to cover this probable liability. The total contract ceiling cost, however, may not be requested depending on expectations of reaching the ceiling cost. Many contracts provide incentives for reducing costs or making improvements in the program. If so, some amount should be budgeted to cover these potential obligations. They represent a potential part of the total cost of particular programs. A 1976 Air Force audit of the Air Force budget estimates for research, development, test and evaluation, and procurement found that

guidance regarding budgeting for award fees and performance incentives was incomplete. As a result, one program office, in its fiscal year 1977-1982 budget submission, did not provide for the possible liability of award fees and performance incentives on four existing contracts. The maximum potential liability was over \$10 million.

A large contingency factor, especially in recent years, has been inflation or price escalation. Today most contracts and cost estimates provide for some adjustment based on price escalation. This is also provided for in the budget estimates. In 1970 DOD requested and obtained permission from OMB to include inflation in its major weapon system estimates. OMB Circular A-11 1/ states that, "It will be assumed that, on the average, the general level of prices will be the same during the budget year as at the time the estimates are prepared, except where \* \* \* price adjustments specifically approved by OMB for fully funded multi-year major procurement, construction, and research and development for major systems."

In an August 3, 1977, memorandum, the Assistant Secretary of Defense (Comptroller), stated

"Effective immediately, all estimates for major RDT&E, major MILCOM and Family Housing, Procurement including Shipbuilding, and Operations and Maintenance, will reflect anticipated changes in future prices based on indices published by my office."

Certain exceptions related to specific contract arrangements are allowed. Prior to this time, individual service or program indexes were encouraged. Inconsistent application both within and among the services caused the change to OSD-specified indexes.

Many other areas can be considered as contingencies including production problems and cost overruns. What contingencies are included and how they are estimated varies from program to program.

#### ADD-ON OF CONTINGENCIES UNLIKELY

For an individual program, the estimate for contingencies may be too high. However, detailed review of individual program estimates is beyond the scope and resources of this

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1/ "Preparation and Submission of Budget Estimates," June 1977.

review. However, on an overall basis, it is unlikely that contingencies are added at successively higher levels making the estimates too high. There are basically two reasons for this: (1) the budgetary philosophy and process in DOD and (2) the need to obtain the most for the money.

#### Budget process

The total DOD planning, programming, and budgeting process takes approximately 18 months. The process starts in June with issuance of volume I of the Joint Strategic Objective Plan and ends with the completion of the DOD budget in December of the following year.

In August, the Secretary of Defense issues budget guidance and program decisions to the services and other DOD components. Budget estimates based on these must be submitted to the Secretary by October 1. Between October and December the budgets are reviewed and changes made as necessary. After Presidential approval, the budget is prepared in final form for inclusion in the President's budget.

The basic purposes of the budget review are to provide a final, thorough screening of needs and to assure the accuracy of cost data. In the budget process it is assumed that requirements always exceed the resources that can be made available and that judicious reductions will be necessary. This making of reductions may be regarded as basic to the budget concept. The services' submissions for fiscal year 1969 were reduced in the budget review process from an original total of \$100.2 billion to \$80.5 billion--a reduction of 22 percent. In internal hearings held by the DOD Comptroller on the fiscal year 1970 budget, service requests were pared from \$100.5 billion to about \$83 billion, or 18 percent.

We reviewed the results of the OSD review of the fiscal year 1978 Air Force and Army budget submissions for 20 randomly selected programs. In almost all instances the OSD review resulted in a reduction in the services' budget submissions. OSD officials said they generally play the devil's advocate. They question the reasonableness and validity of included costs. In those instances where a reviewer feels that the estimate is too low, any increase is usually offset by a decrease in another area or program.

### Working within limited resources

Although arbitrary, predetermined budget ceilings are no longer set as was the practice in the pre-McNamara <sup>1/</sup> era, budget restraints continue to be very important in the requirements process. Even though formal budget ceilings are not given, the Secretary of Defense, the services, and lower levels in preparing their budgets must consider what resources will likely be made available to them. They must recognize the fact that resources are limited and must be shared with other agencies and within the agency. Within this guidance DOD must provide for the national defense and insure the readiness of its forces. To do this they attempt to "get the most for their money." Adding too much to any given program could mean less money for other programs.

### UNOBLIGATED BALANCES DUE TO INCLUSION OF CONTINGENCIES

We reviewed 32 individual line items in DOD procurement accounts to determine the primary reasons for their unobligated balances. See chapter 2 for a discussion of the programs reviewed and causes for the balances.

All the items reviewed had reserves for contingencies as a contributing factor to the balances. <sup>2/</sup> Reserves for contingencies also contributed to FMS balances. In some cases the amount was specified; in others no specific dollar amount was given for the contingency. For example, the M60/M48 tank program office identified \$44.6 million out of \$62.3 million unobligated balances as of Sept. 30, 1976, due to reserves for engineering changes and support and for price escalation. The E-3A program has included in the estimate funds for engineering changes and potential cost overruns. Inflation is included also, but is a part of other estimates and is not identified separately.

There was no consistency between the various items reviewed as to the amount for contingencies in the balances, how they were identified, the kinds of contingencies considered, or how they were provided for in the budget estimates. The only common factor was inflation. This, however,

<sup>1/</sup>Robert S. McNamara was Secretary of Defense from Jan. 1961 to Mar. 1968.

<sup>2/</sup>In only 8 items did increases in the reserves contribute to obligation rate decline.

was treated differently from program to program. Some used OSD-provided estimates; others used specially developed indexes. The problems caused by this inconsistency was one reason for the policy change requiring the use of OSD-specified indexes.

Our review also indicated that, for the most part, the estimates for contingencies were not increased at higher level reviews.

#### ARMY'S UNAPPLIED RESERVE

Army regulations require establishment of an unapplied reserve account. The reserve is intended to provide funds for local reprogramming and for contingencies such as price escalations and contractor claims from previous obligations. A part of the unobligated balances for the various programs are carried in this account. Another regulation provides that funds will be reserved for contingencies but that the reserves will be established at the budget/program line item level. Sufficient information is not available at present to make specific recommendations concerning these reserves; however, we believe that a further investigation is warranted to determine the need for the balances in the reserve and the use to which they are put. As of June 30, 1977, there was a balance of \$50.4 million in this reserve at the Army Armament Materiel Readiness Command. Of this amount \$33.0 million was in the account for more than 3 years. The reserves are not identifiable with specific line items. At TARCOM the unapplied reserve account totaled \$86 million in September 1977; \$50 million of this had been identified as excess to its needs. Headquarters DARCOM had been advised. (See p. 68.)

#### PROCEDURES FOR IDENTIFYING COST GROWTH AND ESCALATION INCREASES OR EXCESS FINANCING ON SHIPBUILDING PROGRAMS

Navy conducts a semiannual review of costs on all ship construction programs. The ship cost adjustment (SCA) is performed in April and August. The objective of the SCA is to:

- Provide an updated cost estimate of each ship to all levels of management within the Navy
- Provide data on which to balance the shipbuilding program with the financial assets available.



- Serve as a "baseline" for internal management of the shipbuilding program by the Navy Material Command.
- Provide the current financial status of shipbuilding programs to top management.

According to Navy directives, the SCA will contain the following information:

- Shipbuilding funding deficiencies or excess, by appropriation, current report.
- Shipbuilding funding deficiencies or excess, by appropriation, last report.
- Principal reasons for shipbuilding increases or decreases which have a significant effect on total deficiencies or excesses.
- Sources, by appropriation, available for reprogramming or recouplement of funds.
- Recommended liquidation of funding deficiencies or application of excess funding.
- Impact of funding deficiencies, if any, on future budgets.

The review process begins when the Plans, Programs, and Financial Management Branch requests a detailed obligation plan from each project office. The project offices develop an obligation plan in conjunction with their participating managers. The participating managers are designated officers responsible for purchasing common use items for all projects in bulk.

The plan submitted by the project office covers all cost factors except escalation. The escalation estimate is made by NAVSEA Cost Estimating and Analysis Division. The estimating office uses a computer program, specific data from the project officer, and a set of assumed Bureau of Labor Statistics indexes for shipbuilding.

After the SCA is prepared by the Plans, Programs, and Financial Management Branch, it is sent to the Chief of Naval Material (CNM) for review and recommendations on any substantive issues. CNM forwards the SCA to the Chief of Naval Operations for review and specific decisions on issues of policy or program content. CNM then sends the SCA to the Comptroller of the Navy.

The SCAs are used to develop a "baseline" for the apportionment request to OMB and in preparing the succeeding year's budget submissions to the Comptroller of the Navy and OSD.

Effect of alternative Bureau of Labor Statistics indexes

According to Navy officials, "escalation payment estimates are computer generated and assume a specific inflation rate and a specific construction schedule." A change in either of these can impact on obligation and outlays. The inflation rate used is an estimate of Bureau of Labor Statistics shipbuilding indexes. The majority of all Navy escalation clauses are tied to actual Bureau indexes.

From fiscal year 1972 through fiscal year 1975, the estimate of Bureau indexes was derived by OSD and provided to NAVSEA. The fiscal year 1976 through 1978 indexes were prepared by NAVSEA's estimating section and approved by OSD. The change to NAVSEA-derived estimates has, in the Navy's opinion, resulted in more accurate estimates. In September 1977, the Commander of NAVSEA stated,

"The Under Secretary of the Navy recently requested and was provided with a comparison of the OSD projections and NAVSEA's for the fiscal years 1972 through 1978 programs. The comparison clearly shows, and is a matter of Congressional testimony as well, that the OSD derived forecasts for the fiscal years 1972 through 1975 programs were constrained, whereas the fiscal years 1976 through 1978 programs which were NAVSEA derived, were objective."

On August 3, 1977, the Assistant Secretary of Defense (Comptroller) notified all services that the fiscal year 1979 budget will be prepared using OSD-derived estimates. The OSD estimated Bureau of Labor statistics indexes are substantially lower than those prepared by NAVSEA. The Commander of NAVSEA in September 1977 requested that the Chief of Naval Operations solicit the support of OSD for continued use of the NAVSEA forecast.

According to Navy officials, a review of Navy shipbuilding estimating procedures has been conducted by International Maritime Associates. This review was directed by Congress. This review is supposed to contain an indepth

study and comparison of OSD and NAVSEA Bureau of Labor Statistics estimates. The report is currently being reviewed by Navy officials and will be provided to Congress.

MOVEMENT OF COST GROWTH AND  
ESCALATION FUNDS BETWEEN SHIP  
PROGRAMS WITHIN THE SCN APPROPRIATION

Prior to fiscal year 1976, NAVSEA had generally been permitted unlimited reprogramming latitude of escalation and cost growth funds for ship construction--shipbuilding and conversion-Navy (SCN) appropriations. This latitude has been heavily used by NAVSEA to provide funding for unusual problems and to aid in using up funds due to expire for obligation purposes. The extensive use of this flexibility has come about due to increased congressional "fencing" of specific appropriations. According to the Chief of the SCN Appropriation Division, fencing refers to a reprogramming which requires both the prior approval of a Congressional Committee and use of OSD transfer authority.

According to NAVSEA:

"The practical effect of 'fencing' is that almost every reprogramming action in the SCN appropriation is a prior approval action, with a minimum processing time of approximately 4 months."

Prior to fiscal year 1976, NAVSEA movement of escalation and cost growth funds was not monitored by either OSD or the Congress. Starting in fiscal year 1976, NAVSEA was required to notify the Assistant Secretary of Defense (Comptroller) of any reprogrammings for cost growth and escalation funds involving an increase of more than \$4,999,000 to an existing ship program or the creation of a new entry for more than \$1,999,000. In addition, the Assistant Secretary of Defense (Comptroller) reports semiannually on changes occurring in cost growth and escalation.

## CHAPTER 8

### IMPLICATIONS FOR CONGRESSIONAL CONTROL

#### CHAPTER SUMMARY

- The Congressional Budget and Impoundment Control Act of 1974 (Public Law 93-344) has as its principal objective the assurance of effective congressional control over Federal expenditures and budgetary priorities. Multi-year full funding for DOD procurement facilitates this objective, but at the same time poses certain questions--there are relatively large mis-estimates of obligations, and related matters, which could weaken effective congressional control.
- Accordingly, we recommend that the Congress
  - Require that DOD provide historical and projected obligation rates, and analyses of variances between estimated and actual rates, in its budget requests for procurement activities. (See p. 110.)
  - Give greater attention to the significant balances of budget authority carried over from year to year, in its analyses and decisions on budget levels--functional as well as individual accounts and programs. (See p. 111.)
  - Review the Office of Management and Budget's plans and steps to date, to strengthen their analyses of DOD's obligations estimates, especially DOD's policy and procedures for projecting first-year obligations in their procurement accounts.
  - Monitor the implementation of the practice of treating extensions of the availability of unobligated balances as new budget authority as agreed to in the conference report on the Second Concurrent Resolution on the Budget, Fiscal Year 1978. (See p. 117.)

--GAO was asked whether the executive branch violated the Impoundment Control Act of 1974 in its actions curtailing the Minuteman III missile program. We conclude that, as a matter of law, there was no violation of the Act. However, the executive's actions were not in keeping with the spirit of the law--its rescission request to the Congress came after work stoppage orders had been issued. (See p. 117.)

MATTERS FOR CONGRESSIONAL  
CONSIDERATION

Unobligated balances of DOD budget authority raise numerous issues for effective congressional oversight and budgetary control. Several have been discussed in the preceding chapters, along with certain of our recommendations. Additionally, there are other matters which, in our opinion, the Congress should consider.

The Congressional Budget and Impoundment Control Act of 1974 includes in its declaration of purposes the following (Public Law 93-344, sec. 2):

"(1) to assure effective congressional control over the budgetary process; (2) to provide for the congressional determination each year of the appropriate level of Federal revenues and expenditures;

\* \* \* \* \*

(4) to establish national budget priorities;  
\* \* \*"

We believe that multiyear full funding for DOD procurement facilitates these objectives by providing the Congress an opportunity to consider the full budgetary consequences (total costs) of proposed appropriation actions to initiate programs. At the same time, however, this funding procedure poses certain questions which warrant congressional attention and action.

NEED FOR OBLIGATION RATE INFORMATION

The Congress' ability to determine expenditure levels and set national budget priorities depends in part upon accurate budgetary information on Federal programs--including accurate executive branch estimates of current and future obligational levels and unobligated balances.

Congressionally determined appropriation levels may not achieve their fiscal, social, or other purposes if the obligations from those appropriations do not match expected levels (expected on the basis of executive branch estimates). For example, a serious shortfall in obligations could hamper fiscal efforts to stimulate the national economy. As discussed in greater detail in a subsequent section, obligations have economic consequences--they stimulate private borrowing and hiring, and affect Federal outlay levels.

It therefore should be a matter of congressional concern if a particular funding procedure entails significant misestimates of obligations. If the probability of misestimates under multiyear full funding are greater than those found where different funding practices are followed, the Congress may want to take special steps in assessing the budgetary requests and estimates for multiyear fully funded programs.

The following table shows that in DOD there regularly have been greater misestimates of procurement obligations (multiyear full funding) than obligations in the two principal areas involving single-year funding, military personnel, and operation and maintenance. The greater variance between estimated and actual obligations in the DOD procurement area suggests the need for special congressional scrutiny of estimated DOD procurement obligations.

Table 8.1

Misestimates of Direct Obligations in Selected  
Department of Defense Budget Areas

(millions)

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	<u>Procurement</u>		<u>Operation and maintenance</u>		<u>Military Personnel</u>	
	<u>Direct obligations</u>	<u>Estimate difference from actual-- (percent)</u>	<u>Direct obligations</u>	<u>Estimate difference from actual-- (percent)</u>	<u>Direct obligations</u>	<u>Estimate difference from actual-- (percent)</u>
<u>Fiscal year 1974:</u>						
Budget year estimate	\$ 17,987	14	\$ 22,405	-6	\$ 22,649	-6
Current year estimate	19,933	25	24,156	1	24,366	1
Actual	16,000	-	23,862	-	24,104	-
<u>Fiscal year 1975:</u>						
Budget year estimate	19,694	15	26,044	0	24,001	-1
Current year estimate	20,351	19	26,241	0	24,992	0
Actual	17,076	-	26,268	-	24,885	-
<u>Fiscal year 1976:</u>						
Budget year estimate	22,767	25	29,300	3	25,078	-1
Current year estimate	22,793	25	28,872	2	25,604	1
Actual	18,196	-	28,342	-	25,267	-
<u>Fiscal year 1977:</u>						
Budget year estimate	25,975	7	31,928	0	25,436	-1
Current year estimate	26,559	9	32,214	1	26,210	2
Actual	24,256	-	31,910	-	25,641	-

## RECOMMENDATION TO THE CONGRESS

The Congress should require that DOD provide historical and projected obligation rates, and analyses of variances between estimated and actual rates, in its budget requests for procurement activities. This would enable the Congress to better assess DOD's projections of obligations and unobligated balances. Obligation rates, for each appropriation title, should show the percentage of the requested funds that are projected for obligation in the first year, and the comparable first-year obligation rates--actual and estimated--for the programs already funded and underway. Such information would permit the Congress to analyze the projections in the light of prior experience, and to question DOD officials on (1) the reasons why projections deviated from actual experience and (2) the validity of current estimates.

The Congress may also want to require such information concerning DOD's nonprocurement accounts and the accounts of other departments and agencies.

While we do not know if there is also a greater variation between estimates and actuals in the multiyear fully funded programs outside of DOD, we would not be surprised if this were the case. Since there is no requirement to obligate all funds within the first year under this procedure, there perhaps is less emphasis on planning and monitoring first-year obligations.

This matter could become more significant if the Congress moves to apply multiyear full funding to more Federal activities. Wider use of multiyear full funding might lead to larger Government-wide obligations shortfalls if steps are not taken to assure proper estimates of obligations.



NEED TO CONSIDER BALANCES  
OF BUDGET AUTHORITY

The Congress under the new congressional budget process (Public Law 93-344) attempts to exercise control over expenditures and set budgetary priorities through several steps, including the setting of targets or ceilings on Federal budget authority and outlays (first and second concurrent resolutions). The control of budget authority probably has greater budgetary consequences for accounts wherein budget authority (sometimes termed "new obligational authority") comprises a large percentage of the funds available for obligation in a given year. In DOD military personnel accounts, budget authority normally comprises 99 percent of the funds available.

In DOD procurement accounts, on the other hand, budget authority is a much smaller component of available funds, primarily because of the existence of large carryover balances.

Table 8.2

DOD Procurement: Budget Authority and  
Total Funds Available for Obligation

<u>Fiscal year</u>	<u>Total available</u>	<u>Budget authority</u>	<u>Budget authority as percent of total</u>
	(billions)		
1975	\$33.6	\$16.7	50
1976	38.4	21.0	55

Where budget authority comprises a smaller percentage of the funds available for obligation, as in DOD procurement, there may be lessened likelihood that congressional actions on budget authority amounts will result in expected effects on obligations and outlays in a given year. We therefore make the following recommendation.

RECOMMENDATION TO THE CONGRESS

The Congress should give greater attention to the

significant balances of budget authority carried over from year to year in its analyses and decisions on budget levels--functional as well as individual accounts and programs. The Congress might consider methods of setting budgetary targets and ceilings on total funds available for obligation. Again, this matter would assume greater importance if more accounts are provided budget authority which remains available for more than 1 year.

NEED FOR CLARIFICATION OF EXECUTIVE BRANCH  
POLICY ON ESTIMATING OBLIGATIONS

There appears to be a lack of uniform executive branch policy concerning DOD's estimates of obligations. OMB officials state that estimates provided to the Congress should be the "best estimates" of the obligation levels which will be achieved. They state, however, that DOD procurement estimates are "targets"--not always the best estimates. DOD officials also state that their estimates of procurement direct obligations are "optimistic" and designed partly to serve as "target incentives to program managers."

We do not question the need for "target incentives"; however, we doubt that target levels should be the amounts presented as obligation estimates in the budget if such amounts regularly deviate significantly from eventual obligations.

RECOMMENDATION  
TO THE CONGRESS

The Congress should review OMB's plans, and steps to date, to strengthen their assessment of DOD's obligations estimates, especially DOD's policy and procedures for projecting first-year obligations in their procurement accounts. There is need for the executive branch to clarify its policy on the use of its "best estimates" or "targets" in projecting obligations.

NEED TO MONITOR TRANSFERS FORWARD  
OF UNOBLIGATED BALANCES

For several years the Congress has recognized excess unobligated prior years funds in the DOD procurement accounts and has, in the annual appropriations acts, transferred these unobligated balances to finance new programs.

Extent of DOD transfers

Since 1972, the annual DOD appropriations acts have transferred from 1 program year to another over \$3.3 billion of unobligated prior-year balances in the DOD procurement accounts, thus reducing the amount of new appropriations (budget authority) necessary to carry out a given program level.

The following schedule shows the extent to which procurement programs within DOD have been financed through extension of prior years unobligated balances by transfer to succeeding years accounts.

Table 8.3

Appropriations and Transfers of Prior Years  
Unobligated Balances Provided  
By Annual Appropriations Acts  
DOD Procurement

<u>Fiscal</u> <u>Year</u>	<u>Annual</u> <u>Appropriation</u>	<u>Balance</u> <u>Transferred</u>	<u>Total</u>
	(millions)		
1972	\$ 17,776.9	\$ 843.7	\$18,620.6
1973	17,799.9	1,055.9	18,855.8
1974	16,225.8	499.8	16,725.6
1975	17,231.1	480.0	17,711.1
1976	21,205.7	99.3	21,305.0
TQ	4,154.8	-	4,154.8
1977	28,416.3	82.6	28,498.9
1978	29,863.8	258.5	30,122.3

As indicated in the schedule above, the amount of unobligated prior-year balances transferred to finance new programs has decreased from a high of slightly over \$1 billion in 1973 to \$82.6 million in 1977. However, in 1978 the amount transferred increased to \$258.5 million.

The Congress, by means of the Department of Defense Appropriation Act, 1978 (Public Law 95-111, Sept. 21, 1977), financed a DOD procurement program of \$30.1 billion for 1978. It did this by appropriating about \$29.9 billion and transferring \$258.5 million of prior-year unobligated balances. The following schedule shows, by appropriation account, the appropriation and source of obligational authority transferred.

Of the excess funds transferred in the appropriation act, \$57.5 million was transferred from fiscal years 1976 and 1977 to the Procurement of Ammunition--Army appropriation for 1978. These funds were originally appropriated for procurement of ammunition which was found to be defective. Production of this ammunition has been stopped while investigation of the defect is underway.

In the Shipbuilding and Conversion--Navy account \$42 million was transferred to 1978 from 1977 as a result of savings from favorable contract awards on the fiscal year 1977 FFG-7 class guided missile frigates. Excess funds of \$30 million in the Trident missile program were identified by the Navy as being available from fiscal year 1976 and TQ programs. These funds were transferred to the Weapons Procurement--Navy appropriation for 1978.

#### Budgetary treatment of transfers

Currently, transfers of balances of prior-year budget authority between accounts do not affect budget authority. This is covered in "Terms Used In The Budgetary Process," (PAD-77-9, July 1977) under the definition of reappropriation, as follows:

"Congressional action to restore the obligational authority, whether for the same or different purposes, of all or part of the unobligated portion of budget authority in an expired account. Obligational availability in a current account may also be extended by a subsequent appropriation act."

Thus, the published definition excluded extensions of obligational availability by means of transfers.

The difference between transfers and reappropriations becomes more significant in light of the Congressional Budget Act of 1974, which provides for budget ceilings

Table 8.4  
Appropriations and Transfers  
DDO Procurement Accounts  
FY 1978

(\$ Thousands)

<u>APPROPRIATION ACCOUNT</u>	<u>APPROPRIATIONS</u>	<u>TRANSFER</u>	<u>ACCOUNT TRANSFERRED FROM</u>	<u>TOTAL</u>
Aircraft Procurement, Army	\$ 657,100	-	-	\$ 657,100
Missile Procurement, Army	536,883	-	-	536,883
Procurement of Weapons and Tracked Combat Vehicles, Army	1,421,200	-	-	1,421,200
Procurement of Ammunition, Army	1,179,300	\$ 57,500	Procurement of Ammunition, Army, 1976/1978 Procurement of Ammunition, Army, 1977/1979	\$37,200 20,300 1,216,800
Other Procurement, Army	1,403,325	2,700	Other Procurement, Army, 1977/1979	2,700 1,406,025
Aircraft Procurement, Navy	3,479,000	-	-	3,479,000
Weapons Procurement, Navy	2,181,900	52,700	Weapons Procurement, Navy, 1976/1978 Weapons Procurement, Navy, 1977/1978 Weapons Procurement, Navy, 1977/1979	4,565 25,435 22,700 2,214,600
Shipbuilding and Conversion, Navy	5,760,500	42,000	Shipbuilding and Conversion, Navy, 1977/1981	42,000 5,802,500
Other Procurement, Navy	2,176,410	10,000	Other Procurement, Navy, 1977/1979	10,000 2,186,410
Procurement, Marine Corps	440,409	9,800	Procurement, Marine Corps, 1977/1979	9,800 450,200
Aircraft Procurement, Air Force	6,262,000	34,400	Aircraft Procurement, Air Force, 1976/1978 Other Procurement, Air Force, 1977/1979	15,100 19,300 6,296,400
Missile Procurement, Air Force	1,700,600	44,600	Missile Procurement, Air Force, 1977/1979	44,600 1,745,200
Other Procurement, Air Force	2,337,345	4,800	Other Procurement, Air Force, 1977/1979	4,800 2,342,145
Procurement, Defense Agencies	<u>327,826</u>	-	-	<u>327,826</u>
<b>TOTAL</b>	<b><u>\$29,863,789</u></b>	<b><u>\$258,500</u></b>		<b><u>\$30,122,289</u></b>

Note: Above total does not include the following transfer of funds for Liquidation of Deficiency

Other Procurement, Army, 1973/1975	\$21,000	Aircraft Procurement, Army, 1975/1977	\$ 8,000
		Missile Procurement, Army, 1975/1977	8,000
		Procurement of Ammunition, Army, 1975/1977	5,000

based on budget authority. A reappropriation constitutes new budget authority as a matter of law. Extensions of obligational authority by transfers of unobligated prior-year balances which have not yet lapsed have not been considered to be a reappropriation. Therefore, such transfers were not considered new budget authority for the budget year.

The difference in the treatment of transfers and reappropriations came to light most recently during the House Budget Committee's consideration of the Second Budget Resolution for fiscal year 1978, because the Labor-Department of Health, Education, and Welfare appropriation bill made available for obligation in fiscal year 1978 certain unobligated balances of fiscal year 1977 funds which otherwise would have lapsed. The Committee therefore added about \$1 billion in budget authority to the Second Budget Resolution to cover the extension of this obligational availability of fiscal year 1977 funds. The Committee believes that failure to include extensions of the availability of funds as new budget authority creates a form of backdoor spending by which unobligated prior year balances, which would normally lapse, could be made available to support higher program levels without being counted as budget authority in the budget year. The Senate Budget Committee, however, did not treat the extension of the unobligated balances as new budget authority. The House and Senate conferees agreed not to count the extensions as new budget authority in the 1978 budget resolution but to consider similar instances in the future as new budget authority in all appropriation bills.

Beginning in the 1979 budget the Committees plan to treat extensions of budget authority into the succeeding fiscal year as new budget authority under the concurrent resolutions on the budget for the succeeding fiscal year, adopted pursuant to title III of the Congressional Budget Act of 1974.

### Conclusions

We agree with the Budget Committees that extensions should be treated as new budget authority for the succeeding fiscal year. We believe that insofar as legislation extending budget authority into a new fiscal year provides legal authority to obligate which would not otherwise exist in that fiscal year, it creates new budget authority for such fiscal year. It is our opinion that there is no

difference between extending existing budget authority and providing wholly "original" budget authority in terms of impact upon program levels and outlays during the succeeding fiscal year.

We fully recognize, however, that a change in treatment of extensions of prior years' unobligated balances by means of transfers will create some technical problems, such as the presentation in the program and financing schedules in the Budget Appendix. We are working on redefining reappropriation to include extensions of unobligated authority. We shall also work with OMB and the Committees in reaching solutions to problems which arise.

#### RECOMMENDATION TO THE CONGRESS

The Congress should monitor the implementation of the practice of treating extensions of the availability of unobligated balances as new budget authority, as agreed to in the conference report on the Second Concurrent Resolution on the Budget, Fiscal Year 1978.

#### CONCLUSION CONCERNING MINUTEMAN III

We were asked whether the executive branch is following the Budget Act's provisions on rescissions and deferrals concerning the Minuteman III intercontinental ballistic missile.

While we have concluded that, as a matter of law, the executive branch did not violate the Impoundment Control Act of 1974, we believe that the actions of the Executive Branch were not in keeping with the spirit of the statute in that decisions to terminate major programs should be made jointly by the Executive Branch and the Congress.

A presidential press release dated July 6, 1977, informed the public of the President's decision to curtail the Minuteman III program--only 10 of a proposed 60 missiles would be built. The President's decision was implemented on July 11, 1977, when stop-work and termination orders were sent to the contractors.

It was not until July 26, 1977, however, that the President formally submitted a rescission proposal to the Congress requesting the rescission of the procurement budget authority for production of the Minuteman III. The

rescission message proposed a rescission of \$105 million out of a total of \$290.5 million of budget authority provided for procurement of Minuteman IIIs by DOD.

In response to earlier congressional inquiries regarding executive branch actions on the Minuteman III program, we expressed our concern that the Congress should be promptly notified of decisions to terminate programs. We stated that action should not be taken to dismantle or curtail programs without the Congress having an opportunity to fully consider the matter. We are of the opinion that one of the major objectives of the Impoundment Control Act--that the executive branch and the Congress should jointly make decisions to delay or terminate programs--is thwarted when situations such as the one concerning the Minuteman program occur. In such cases, the program is already curtailed and it could be very difficult, if not impossible, to resume the program within the original time and cost plans.

The practice followed by the executive branch concerning the Minuteman III is not unique. We recently discovered a similar situation in connection with the President's decision to curtail B-1 bomber production; termination orders were issued before the Congress was allowed to complete action on the rescission proposal for that program.

We were asked to review the propriety of the Executive Branch's actions in the case of the B-1 bomber, in light of concern that there had been a violation of the Impoundment Control Act. While we concluded that, as a matter of law, the Executive Branch has not violated the statutes governing the B-1 bomber program, we in that case also stated that the practice of initiating major program terminations prior to the time the Congress has been either informed of such decisions or allowed to complete action under the Impoundment Control Act of 1974, to consider the rescission proposals of the program, creates a situation that jeopardizes the possibility of restarting the program should the Congress disapprove the rescission proposal and specifically direct continuation of the program. At a



minimum, terminating and then restarting the program could greatly increase program costs and delay schedules.

Because we believe that the handling of the terminations of the B-1 bomber and the Minuteman III missile were not in keeping with the spirit of the Impoundment Control Act, we wrote the Director of the OMB on August 5, 1977, stating that proposed rescissions of major programs should be submitted to the Congress contemporaneous with instructions only to suspend further program work, if such suspension is contractually feasible, pending congressional action on the proposed termination. Then, if the Congress approves the proposed rescission (and thus, the termination), instructions could at that time be issued to terminate further work. Conversely, if the rescission is not approved and the Congress specifically directs that the program be continued, the suspension could be revoked and program activities resumed with minimum disruption and additional costs.

The Congress did not concur in the rescission request for Minuteman III, and consequently the \$105 million was required to be made available for obligation on October 16, 1977. We have confirmed that OMB and DOD have made the \$105 million available for obligation.

On October 12, 1977, the Department of the Air Force, anticipating the rejection of the rescission proposal, began development of a procurement plan for the Minuteman III missiles. It was recommended that the Minuteman III production line be reconstituted to build as many completed Minuteman III boosters as possible with the \$105 million. Whereas originally 60 boosters were to have been built, we were told that the \$105 million would only be sufficient to procure 20-25 missiles; and that to build the remaining 25-30 missiles would require an additional \$60 million.

Air Force officials estimate that, once authority is given to proceed with further Minuteman III production, it will take about 6 months to definitize the contractual documents associated with the program. In the meantime,

work would commence on the basis of supplemental agreements to the existing termination notices. If this connection, the bulk of the \$105 million will be obligated at the time these supplemental agreements are entered into. We were told that delivery of the Minuteman III missiles could begin in 7 to 10 months after approval is given to restart production. The Air Force reports that if all 60 missiles were procured, program slippage would be about 9-12 months due to having curtailed the program and having to restart the activities. Specifically, delivery of the 60 missiles was originally scheduled for completion by October 1, 1978. Under the present circumstances, all 60 missiles, if funds were made available, would not be delivered before June-September 1979. In the event additional funds are not provided for all 60 missiles, we were told that program slippage will be less-- about 2-5 months for the more limited procurement of the 20 to 25 missiles that the restored \$105 million would fund. In this latter case, delivery is estimated to be between November 1978 and February 1979.