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DEFENSE BUDGET

Visibility and Accountability of O&M Fund Movements

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Mr. Chairman, Members of the Subcommittee:

At the request of this Subcommittee, we are submitting a statement for the record in conjunction with today's hearings on the adequacy of the Department of Defense's (DOD) fiscal year 2001 budget request as it relates to readiness needs. Specifically, the subcommittee asked that we summarize the results of our analysis of the Operation and Maintenance (O&M) appropriations of active components and Defense-wide agencies from fiscal year 1994 through 1998. We issued a report on this work in February 2000.[1] The objectives of our work were to

- identify the aggregated differences between the amounts Congress initially designated[2] for O&M subactivities, (especially the readiness-related subactivities) and those DOD reported as obligated for the same subactivities;
- identify those O&M subactivities where DOD obligated funds differently than congressionally initially designated in each year of the 5-year period we examined (1994 through 1998); and
- assess information available to Congress to track DOD's movement of funds among O&M subactivities.

Since 1989, O&M has accounted for an average of 35 percent of the total Defense budget, making it DOD's largest appropriation group. For fiscal year 2000, Congress has provided about $104 billion for O&M. O&M is directly related to military readiness because it provides funds for training troops for combat and for maintaining tanks, airplanes, ships, and related equipment. O&M accounts also fund a wide range of activities that are less directly related to readiness. These include many day-to-day activities such as civilian personnel management and payments, transportation, health, and child care. Congressional defense committees have expressed concerns about the extent to which funds that directly affect readiness have been reduced to pay for other O&M expenses.

To request funding from Congress, DOD divides its services' O&M budget requests into four budget activities: (1) operating forces, (2) mobilization, (3) training and recruiting, and (4) administration and servicewide

[1] *Defense Budget: DOD Should Further Improve Visibility and Accountability of O&M Fund Movements* (GAO/NSIAD-00-18, Feb. 9, 2000).

[2] We use the term "congressionally designated," "congressional designation," or variations of these terms throughout to refer to amounts set forth at the subactivity group level in an appropriation act's conference report. These recommended amounts are not binding unless they are also incorporated directly or by reference into an appropriation act or other statute.

activities.[3] DOD further divides its budget activities into various activity groups, then again into subactivity groups. The number and names of the activity and subactivity groups differ with each service. Although Congress reviews DOD's budget proposal for the services and Defense-wide activities at the subactivity level, it makes appropriations at the aggregated account level—that is, for the Army, the Navy, the Marine Corps, the Air Force, and the Defense-wide O&M accounts. However, to indicate how it expects O&M funds to be spent, Congress designates in its conference report on annual appropriations acts, specific amounts for each subactivity group, Defense-wide agency, field activity, and program.

In addition, Congress has directed DOD to provide semiannual reports on transfers from certain high-priority readiness-related subactivities within the Operating Forces budget activity.[4] Included in the reports are data on the funds moved into or out of these subactivities, as well as explanations of the movements.

Summary

From fiscal year 1994 through 1998, DOD changed funding amounts for 245 O&M subactivities by almost $43 billion compared with the amounts Congress initially designated for them. These changes included both decreases and increases to the amounts designated by Congress. DOD moved almost $16 billion out of and $27 billion into O&M subactivities. The changes made to these O&M subactivities accounted for about 12 percent of the total amounts initially appropriated for O&M during the period. Over half of the $43 billion was moved out of or into ($9 billion out of and $13.5 billion into) 81 O&M subactivities DOD considers directly related to readiness, while $10 billion was moved out of or into ($5.5 billion out of and $4.4 billion into) 28 O&M subactivities that Congress considers high-priority readiness-related.

Every year from fiscal year 1994 through 1998 DOD obligated a different amount than Congress designated for the same 63 subactivities. (See appendix I, tables 2 and 3 for details.) In total, DOD moved about $19 billion out of or into these subactivities ($6.2 billion was moved out and $12.6 billion was moved in). About $4.3 billion was moved out of and about $6.7 billion was moved into 30 subactivities DOD considers directly related to readiness for a total of about $11 billion. The 30 subactivities include 11 of the high-priority readiness-related subactivities. Further, of the 11 subactivities, DOD moved $3.2 billion out of 6 subactivities

[3]The Marine Corps is an exception with only three budget activities and does not include the mobilization budget activity.

[4]10 U.S.C. 483.

Congress considers high-priority readiness-related (e.g., Army divisions, Navy ship depot maintenance, Air Force primary combat forces), while moving $2.3 billion into 5 others (e.g., Army base operations for land forces, Navy mission and other flight operations, Marine Corps operational forces).

In recent years DOD has improved the information it gives to Congress on the movement of O&M funds. But this budget information is still incomplete and does not provide adequate details of where funds are moved and why. Changes in the way DOD presents budget justification materials, as well as congressionally mandated changes in the level of details to be provided by DOD, have improved DOD's budget information available to Congress. In particular, the high-priority readiness-related transfer reports offer the most information available on why DOD moves funds among selected subactivities. However, the statutory requirement for these reports will expire when DOD submits its fiscal year 2000 report. In addition, from fiscal years 1994 through 1998, little information was available to Congress about what DOD terms "fact-of-life" movements, which DOD says are made to reflect changes that occur between the time DOD formulates its budget request and the time Congress passes the appropriation act. DOD reported over $1 billion in fact-of-life adjustments to its fiscal year 1999 O&M appropriations. DOD's financial management regulation does not define these adjustments and provides no guidance on when it is appropriate to make such adjustments, who should approve them, or how much funding can be moved. Without any such guidance governing these movements, DOD and Congress cannot evaluate whether the movements of funds are appropriate.

To enhance congressional oversight, we recommended in our February 2000 report that DOD take actions to further improve the visibility and accountability of funds moved within the O&M appropriations. DOD agreed with our recommendation to provide more guidance on the fact-of-life adjustments. DOD did not agree with our recommendation to continue to provide Congress reports on transfers of funds in high-priority readiness-related subactivities because DOD believes the information is available in several other reports. However, because we do not believe these reports collectively provide the same information, we changed our recommendation to a matter for congressional consideration.

Background

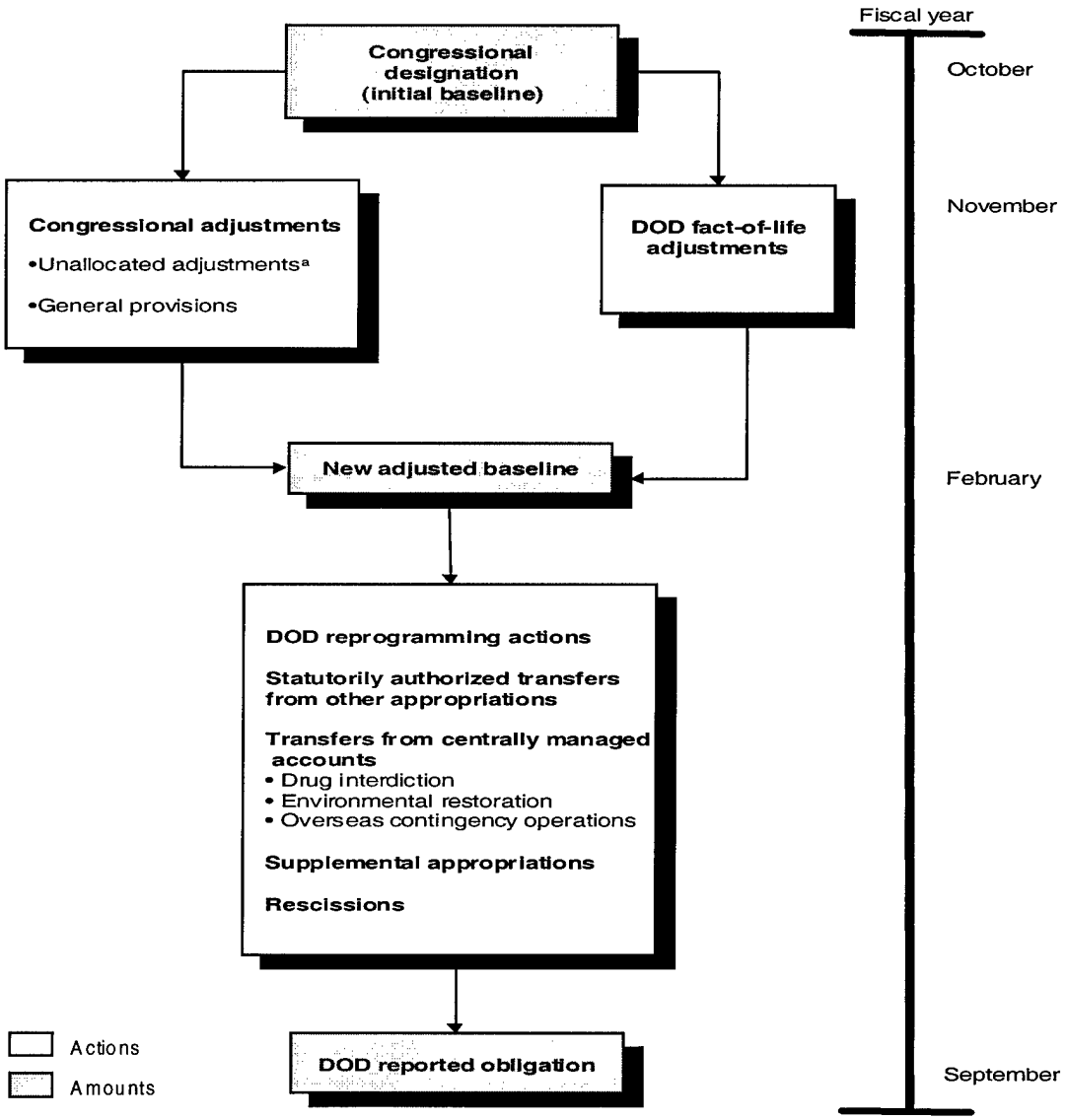
DOD has considerable flexibility in using O&M funds and can move them in several ways and at different times during the fiscal year. As shown in figure 1, DOD can "adjust" funding after an initial appropriation is made through

- adjustments directed by Congress in conference reports on appropriation acts and
- fact-of-life adjustments DOD believes are necessary due to changes—such as unplanned force structure changes—that have occurred since the budget was formulated.

After it makes these fund movements, DOD establishes a new "adjusted" baseline budget. It can then move funds among subactivities through

- reprogramming actions, to move funds from one budget activity to another within the same account;
- statutorily authorized transfers, to move funds from other Defense appropriations (such as Procurement);
- transfers from congressionally established, centrally managed accounts (such as for overseas contingencies);
- supplemental appropriations that Congress provides for additional expenses during the year; and
- rescissions, with which Congress cancels appropriated funds.

Figure 1: How O&M Funds Are Moved Throughout the Fiscal Year



[a]In the conference report on the appropriations act, conferees direct DOD to make changes to its budget baseline. These changes are known as unallocated adjustments and general provisions.

Source: Our depiction, based on Defense Financial Management Regulation DOD 7000.14-R, conference reports on the appropriations acts, and interviews with officials from the Office of the Under Secretary of Defense (Comptroller).

DOD financial management regulations, which reflect agreements between DOD and the authorization and appropriation committees, provide general guidelines for reprogramming. For example, congressional notification is required for O&M reprogramming actions of $15 million or more.

DOD Obligations Differed Substantially From Initial Congressional Designations

We compared the initial congressional designations for O&M subactivities as identified in conference reports on Defense appropriation acts with DOD's reported obligations for the same subactivities and found that from fiscal year 1994 through 1998, DOD moved almost $43 billion out of or into 245 O&M budget subactivities after the conferees made initial funding designations. This amount represents about 12 percent of all the services' and Defense-wide agencies' O&M appropriations over the 5-year period and includes all fact-of-life adjustments, reprogramming actions, statutorily authorized transfers, and supplemental appropriations (see table 1).

Table 1: Differences Between Initial Congressional Designations and DOD's Reported Obligations, by O&M Budget Activity, Fiscal Years 1994-98 [a]

Constant 1999 dollars in millions

O&M account	Operating forces	Mobilization	Training and recruiting	Administration and servicewide	Total difference
Army	$9,873.8[b]	$284.0	$1,248.4	$4,515.5	$15,921.7
Navy	6,641.7	338.9	540.2	3,392.7	10,913.5
Marine Corps	603.6	[c]	251.5	152.8	1,007.9
Air Force	5,023.4	2,248.7	874.1	4,026.9	12,173.1
Defense-wide	383.4	67.4	19.6	2,341.8	2,812.2
Total	**$22,525.9**	**$2,939.0**	**$2,933.8**	**$14,429.7**	**$42,828.4**

[a] Initial congressional designations for each O&M subactivity as reported in annual conference reports on Defense appropriations acts for fiscal years 1994-98.

[b] Amount does not include Army data for fiscal year 1996, when the Army restructured its Operating Forces budget activity.

[c] The Marine Corps does not have a separate budget activity for Mobilization.

Amounts may not total due to rounding.

Source: Our analysis, based on Defense O&M budget data.

These changes included both decreases (about $16 billion) and increases (about $27 billion) to initial congressional designations. In addition,

- over half of the $43 billion was moved out of or into ($9 billion out of and $13.5 billion into) 81 O&M subactivities DOD considers directly related to readiness, and

- about $10 billion was moved out of or into ($5.5 billion out of and $4.4 billion into) 28 O&M subactivities that Congress considers high-priority readiness-related.

Our recent report contains more detailed information on the differences between initial congressional designations and DOD obligations, by individual O&M subactivity and Defense-wide agency, from fiscal year 1994 through 1998.

DOD Consistently Moved O&M Funds Into and Out of Certain Subactivities

We identified those O&M subactivities that were obligated differently than those initially congressionally designated in each of the 5 years in our study period (1994-98) and found that DOD consistently obligated either more or less funds for the same 63 O&M subactivities. (See appendix. I, tables 2 and 3.) Specifically, DOD moved a total of about $19 billion–$6.2 billion out of and $12.6 billion into–these 63 subactivities. Further,

- DOD moved about $4.3 billion out of and about $6.7 billion into 30 subactivities DOD considers directly related to readiness, and
- DOD moved about $3.2 billion out of six subactivities Congress considers high-priority readiness-related (e.g., Army divisions, Navy ship depot maintenance, Air Force primary combat forces), while moving $2.3 billion into five others (e.g., Army base operations for land forces, Navy mission and other flight operations, Marine Corps operational forces).

Again, our recent report presents more detailed data on each of these subactivities.

Congress Has Visibility Over Some Movements of O&M Funds

The information DOD provides to Congress on the movement of funds among O&M subactivities has improved, but additional improvements are needed to enhance congressional oversight of these movements and to ensure DOD can account for its use of O&M funds. Currently available budget information is incomplete and does not provide adequate details of where or why funds are moved. Our report discusses the following two examples of how DOD could improve the visibility and accountability of O&M fund movements.

- Congress has directed DOD to provide semiannual reports on transfers from certain high-priority readiness-related subactivities within the services' Operating Forces budget activity.[5] Included in the reports are data

[5] 10 U.S.C. 483

on the funds moved into or out of these subactivities, as well as explanations of the movements. However, the statutory requirement for these reports will expire soon, and when it does, DOD does not plan to continue providing these reports. DOD believes that the information is redundant and is available in several other reports DOD provides to Congress. We believe, however, that the high-priority readiness-related transfer reports offer the most information available on why DOD moves funds among selected subactivities. In view of the consistency with which DOD has reported obligations that are different from initial congressional designations for some readiness-related O&M subactivities, we noted in our February 2000 report that Congress may wish to consider extending the legislative requirement that DOD continue to provide the high-priority readiness-related transfer reports.

- DOD does not have any formal guidance stating when it is appropriate to make fact-of-life budget adjustments, which totaled over $1 billion in fiscal year 1999 alone. We reported that little information was available to Congress about these adjustments from fiscal year 1994 through 1998. DOD's financial management regulation does not define these adjustments and provides no guidance on when it is appropriate to make them, who should approve them, or how much funding can be moved. Without such guidance, DOD and Congress cannot determine whether adjustments are appropriate. We have recommended that in order to improve the accountability of these fund movements, DOD should develop such guidance in consultation with the House and Senate Committees on Appropriations. DOD has agreed with our recommendation.

This concludes our formal statement. If you or other members of this subcommittee have any questions, we will be pleased to answer them.

Contacts and Staff Acknowledgments

For future contacts regarding this statement, please contact Norman J. Rabkin on (202) 512-5140. Individuals making key contributions to this statement included Brenda Farrell and Laura Talbott.

O&M Subactivities and Agencies for Which DOD Consistently Obligated Less or More Funds Than Congress Initially Designated, Fiscal Years 1994-98

Every year from fiscal year 1994 through 1998, DOD obligated a different amount than Congress designated for the same 63 subactivities. Table 2 shows O&M subactivities and Defense-Wide agencies that consistently obligated less funding than Congress initially designated. Table 3 shows O&M subactivities and Defense-Wide agencies that consistently obligated more funding than Congress initially designated.

Table 2: O&M Subactivities and Defense-Wide Agencies for Which DOD Consistently Obligated Less Funds Than Congress Initially Designated, Fiscal Years 1994-98

Constant 1999 dollars in millions

O&M subactivity	5-year total			
	Congress' initial designation[a]	DOD's Obligation	Difference	Percentage difference
Army				
Divisions[c,d]	$2,515.7	$1,935.8	$579.9	23.1
Claims	917.8	688.5	229.3	25.0
Corps combat forces[c,d]	720.9	500.3	220.6	30.6
Servicewide communications	3,808.6	3,629.4	179.2	4.7
Land forces depot maintenance[c,d]	1,649.2	1,486.2	163.0	9.9
Echelon above corps forces[c,d]	906.3	827.2	79.1	8.7
Civilian education and training	443.3	420.5	22.8	5.1
One station unit training	84.2	66.6	17.6	20.9
Subtotal	**$11,046.0**	**$9,554.5**	**$1,491.5**	
Navy				
Ship depot maintenance[c]	11,611.9	10,393.6	1,218.3	10.5
Weapons maintenance[b]	2,335.0	2,088.8	246.2	10.5
Air systems support	1,467.8	1,310.8	157.0	10.7
Flight training	1,630.5	1,509.4	121.1	7.4
Fleet ballistic missile[b]	4,180.4	4,102.4	78.0	1.9
Cruise missile[b]	568.0	529.0	39.0	6.9
Air operations and safety support[b]	454.4	419.6	34.8	7.6
Space and electronic warfare systems	385.9	353.5	32.4	8.4
Coast Guard support	104.3	92.9	11.4	10.9
Electronic warfare[b]	41.3	34.1	7.2	17.3
Junior reserve officer training corps	119.2	113.5	5.7	4.8
Fleet hospital program	95.0	92.4	2.6	2.7
Depot operations support[b]	6.3	5.7	0.6	10.0

Constant 1999 dollars in millions

O&M subactivity	5-year total			
	Congress' initial designation[a]	DOD's Obligation	Difference	Percentage difference
Subtotal	**$23,000.0**	**$21,045.7**	**$1,954.3**	
Marine Corps				
Base support for accession training	284.0	233.4	50.6	17.8
Maritime prepositioning[b]	420.9	406.8	14.1	3.3
Base support for recruiting and other training and education	43.6	30.0	13.6	31.1
Subtotal	**$748.5**	**$670.2**	**$78.3**	
Air Force				
Primary combat forces[c]	13,448.3	12,459.9	988.4	7.3
Logistics operations	4,574.9	3,978.1	596.8	13.0
Space control systems[b]	1,874.2	1,551.8	322.4	17.2
Base support for other training	2,303.6	2,066.9	236.7	10.3
Global C3I and early warning[b]	4,053.5	3,914.3	139.2	3.4
Launch vehicles[b]	596.5	527.7	68.8	11.5
Satellite systems[b]	231.5	165.9	65.6	28.3
Arms control	168.9	131.5	37.4	22.2
Other personnel support	178.3	159.5	18.8	10.5
Subtotal	**$27,429.7**	**$24,955.6**	**$2,474.1**	
Defense-wide				
On-Site Inspection Agency[d]	464.5	352.7	111.8	24.1
Joint Chiefs of Staff	2,807.3	2,761.3	46.0	1.6
Defense Contract Audit Agency	1,754.7	1,733.5	21.2	1.2
Subtotal	**$5,026.5**	**$4,847.5**	**$179.0**	
Total	**$67,250.7**	**$61,073.5**	**$6,177.2**	**9.2**

[a]Initial congressional designations for each O&M subactivity as reported in DOD's budget estimates to Congress.

[b]O&M subactivities located in the Operating Forces budget activity that DOD considers to be most directly related to readiness.

[c]O&M subactivities located in the Operating Forces budget activity that DOD considers to be most directly related to readiness for which Congress also identified as high-priority readiness-related for reporting fiscal year 1998 transfers.

[d]Includes only fiscal year 1997 and 1998 because the Army restructured its Operating Forces budget activity in fiscal year 1997 and did not maintain a link between the old and the new budget structure. Four subactivities in the Army's Operating Forces budget activity in this table were affected by this change.

[e]On-Site Inspection Agency's resources were transferred to the newly established Defense Threat Reduction and Treaty Compliance Agency as of October 1, 1998.

Amounts may not total due to rounding.

Source: Our analysis, based on Defense O&M budget data.

Table 3: O&M Subactivities and Defense-Wide Agencies for Which DOD Consistently Obligated More Funds Than Congress Initially Designated, Fiscal Years 1994-98

Constant 1999 dollars in millions

	5-year total			
O&M subactivity	**Congress' initial designation[a]**	**DOD's obligation**	**Difference**	**Percentage difference**
Army				
Miscellaneous activities[b,d]	$216.0	$3,140.5	$2,924.5	1353.7
Base operations support for land forces readiness[c,d]	5,198.8	5,620.4	421.6	8.1
Logistic support activities	1,667.0	1,984.4	317.4	19.0
Land forces operations support[c,d]	1,325.8	1,528.8	203.0	15.3
Unified commands[b,d]	119.6	225.5	105.9	88.6
Other personnel support	890.3	995.6	105.3	11.8
Management and operational headquarters[b,d]	291.7	384.2	92.5	31.7
Subtotal	**$9,709.2**	**$13,879.4**	**$4,170.2**	
Navy				
Planning, engineering, and design	1,398.7	3,056.2	1,657.5	118.5
Mission and other flight operations[c]	10,187.7	11,063.1	875.4	8.6
Mission and other ship operations[c]	10,302.7	10,958.9	656.2	6.4
Combat support forces[b]	1,748.8	2,146.9	398.1	22.8
Space systems and surveillance[b]	809.0	1,039.4	230.4	28.5
Acquisition and program management	2,239.0	2,370.7	131.7	5.9
Warfare tactics[b]	728.6	806.4	77.8	10.7
International headquarters and agencies	38.8	45.7	6.9	17.6
Subtotal	**$27,453.3**	**$31,487.3**	**$4,034.0**	
Marine Corps				
Operational forces[c]	1,810.8	1,944.5	133.7	7.4
Recruiting and advertising	347.5	374.8	27.3	7.9

Constant 1999 dollars in millions

	5-year total			
O&M subactivity	**Congress' initial designation[a]**	**DOD's obligation**	**Difference**	**Percentage difference**
Recruit training	38.3	43.6	5.3	14.1
Subtotal	**$2,196.6**	**$2,362.9**	**$166.3**	
Air Force				
Other servicewide activities	2,760.1	4,935.4	2,175.3	78.8
Base support for logistics operations	3,553.6	3,894.1	340.5	9.6
Management and operational headquarters[b]	572.1	911.8	339.7	59.4
Other combat operations support[b]	1,159.6	1,417.4	257.8	22.2
Administration	543.7	757.0	213.3	39.3
Training support	324.0	400.1	76.1	23.5
Subtotal	**$8,913.1**	**$12,315.8**	**$3,402.7**	
Defense-wide				
Classified and communications agencies[e]	20,643.4	21,146.9	503.5	2.4
U.S. Special Operations Command	5,514.8	5,795.1	280.3	5.1
Defense Security Service	1,012.5	1,035.8	23.3	2.3
Subtotal	**$27,170.7**	**$27,977.8**	**$807.1**	
Total	**$75,442.9**	**$88,023.2**	**$12,580.3**	**16.7**

[a]Initial congressional designations for each O&M subactivity as reported in DOD's budget estimates to Congress.

[b]O&M subactivities located in the Operating Forces budget activity that DOD considers to be most directly related to readiness.

[c]O&M subactivities located in the Operating Forces budget activity that DOD considers to be most directly related to readiness for which Congress also identified as high-priority readiness-related for reporting fiscal year 1998 transfers.

[d]Includes only fiscal year 1997 and 1998 because the Army restructured its Operating Forces budget activity in fiscal year 1997 and did not maintain a link between the old and the new budget structure. Five subactivities in the Army's Operating Forces budget activity in this table were affected by this change.

[e]Includes the classified and communications agencies, the Defense Information Systems Agency, and the Defense Mapping Agency.

Amounts may not total due to rounding.

Source: Our analysis, based on Defense O&M budget data.

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