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## **FORCE STRUCTURE**

# **Restructuring and Rebuilding the Army Will Cost Billions of Dollars for Equipment but the Total Cost Is Uncertain**

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Highlights of [GAO-08-669T](#), a testimony before the Subcommittee on Air and Land Forces, Committee on Armed Services, House of Representatives

## Why GAO Did This Study

The high pace of overseas operations is taking a heavy toll on Army equipment. Harsh combat and environmental conditions over sustained periods of time have exacerbated equipment repair, replacement, and recapitalization problems. The Army has also taken steps to restructure its forces before implementing its longer term transformation to the Future Combat System. To support ongoing operations and prepare for the future, the Army has embarked on four key initiatives:

(1) restructuring from a division-based force to a modular brigade-based force, (2) expanding the Army by adding about 74,000 people and creating new units, (3) repairing, replacing, and recapitalizing new equipment through its reset program, and (4) replacing equipment borrowed from its pre-positioned equipment sets around the world. Since 2004, Congress has provided billions of dollars to support the Army's equipping needs.

GAO has issued many reports on the Army's efforts to equip modular units, expand the Army, reset equipment, and manage and replace prepositioned equipment. This statement, which draws largely on these reports, will address (1) the equipment-related cost of these initiatives, and (2) the management challenges facing the Army and the actions needed to improve its implementation of these initiatives. GAO is issuing a separate statement today on the Future Combat System ([GAO-08-638T](#)).

To view the full product, including the scope and methodology, click on [GAO-08-669T](#). For more information, contact Janet A. St. Laurent at (202) 512-4402 or [stlaurentj@gao.gov](mailto:stlaurentj@gao.gov).

## FORCE STRUCTURE

### Restructuring and Rebuilding the Army Will Cost Billions of Dollars for Equipment but the Total Cost Is Uncertain

#### What GAO Found

Restructuring and rebuilding the Army will require billions of dollars for equipment and take years to complete; however, the total cost is uncertain. Based on GAO's analysis of Army cost estimates and cost data, it appears that the Army's plans to equip modular units, expand the force, reset equipment, and replace prepositioned equipment are likely to cost at least \$190 billion dollars through fiscal year 2013. However, these estimates have some limitations and could change. Further, the Army has stated it plans to request additional funds to address equipment shortfalls in modular units through fiscal year 2017. Several factors are contributing to the uncertainties about future costs. First, the Army's \$43.6 funding plan for equipping modular units was based on preliminary modular unit designs and did not fully consider the needs of National Guard units. Second, the Army expects to need \$18.5 billion for equipment to expand the force but has not clearly documented this estimate. Third, costs to reset equipment may total at least \$118 billion from fiscal years 2004-2013 but may change because they are dependent on how much equipment is lost, damaged, or worn beyond repair during continuing operations in Iraq and Afghanistan and how long these operations continue. Fourth, the Army believes it will need at least \$10.6 billion to replace prepositioned equipment that was taken out of storage to support ongoing operations, but this amount is an estimate and DOD's overall strategy for prepositioned equipment has not yet been issued. Given the magnitude of these initiatives and potential for costs to change, DOD will need to carefully monitor the projected costs of these initiatives so that it can consider tradeoffs and allocate funding to balance the Army's equipping needs for the next decade and longer term transformation goals.

A common theme in GAO's work has been the need for DOD and the Army to take a more strategic approach to decision making that promotes transparency and ensures that programs and investments are based on sound plans with measurable, realistic goals and time frames, prioritized resource needs, and performance measures to gauge progress. GAO's work on modular restructuring has shown a lack of linkage between the Army's funding requests and equipment requirements. This lack of linkage impedes oversight by DOD and Congress because it does not provide a means to measure the Army's progress in meeting modular force equipment requirements or inform budget decisions. Oversight of Army initiatives has also been complicated by multiple funding requests that makes it difficult for decision makers to understand the Army's full funding needs. GAO has recommended a number of actions to improve management controls and enhance transparency of the Army's plans for equipping modular units, expanding the force, resetting equipment, and replacing prepositioned equipment. However, many of these recommendations have not been fully implemented or adopted. For example, until the Army provides a comprehensive plan for its modular restructuring and expansion initiatives, which identifying progress and total costs, decision makers may not have sufficient information to assess progress and allocate defense resources among competing priorities.

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Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss issues related to Army equipment in light of the high pace and long duration of operations in Iraq and Afghanistan as well as the Army's plans to modernize and transform its capabilities. The Army has undertaken a number of initiatives to restructure and rebuild its force in the midst of ongoing overseas operations. Key initiatives include plans to restructure the Army from divisions to standardized modular brigades as well as expand the force by more than 74,000 soldiers. Both of these initiatives will create requirements for significant quantities of new equipment. Amid ongoing operations, the Army must also reset (repair or replace) existing equipment that has been used in harsh environments overseas. Further, the Army has taken much of its pre-positioned stock out of storage to support combat operations and these critical reserve stocks will need to be replenished.<sup>1</sup> Concerned about declining military readiness, Congress has provided substantial funding in response to Department of Defense (DOD) funding requests. However, significant challenges continue to face the Army as it attempts to simultaneously support ongoing operations, improve the readiness of nondeployed units, and transform its force for the future.

As you requested, my testimony will focus on the equipping implications of restructuring and expanding the Army; efforts to repair, replace, and recapitalize equipment through the Army's reset program; and reconstitution of prepositioned equipment. Specifically, I will address (1) the cost of the Army's plans to implement these initiatives, and (2) the management challenges facing the Army and the actions needed to improve its implementation of these initiatives.

My statement is based on numerous reports and testimonies published from fiscal years 2005 through 2008. Since 2004, we have examined the Army's plans and funding for the four initiatives, and determined the extent to which the Army's plans were comprehensive and transparent. We conducted our work in accordance with generally accepted government auditing standards. Related reports are listed at the end of this testimony and include reviews of the Army's equipping and reset strategies, prepositioned equipment, modular restructuring, and efforts to

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<sup>1</sup>GAO, *Military Readiness: Impact of Current Operations and Actions Needed to Rebuild Readiness of U.S. Ground Forces*, [GAO-08-497T](#) (Washington, D.C.: Feb. 14, 2008).

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expand the Army. We are also issuing a separate statement today on the Army's Future Combat System, a longer term transformation effort that comprises 14 integrated weapon systems and an advanced information network and which is estimated to cost about \$160 billion.<sup>2</sup>

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## Summary

Restructuring and rebuilding the Army will require billions of dollars for equipment and take at least several more years to complete. However, the total cost of equipping the modular force, replacing or repairing damaged or worn equipment, and replacing prepositioned equipment is uncertain. Based on our analysis of Army cost estimates and cost data, it appears that the cost of equipping modular units, expanding the force, resetting equipment, and replacing prepositioned equipment sets will be at least \$190 billion dollars from fiscal years 2004-2013. However, these estimates could change and additional equipment is likely to be needed at least through 2017 to equip the Army's modular units. Several factors are contributing to the uncertainties about future costs. First, the Army's \$43.6 billion cost estimate for procuring equipment to convert to a modular force from fiscal years 2005-2011 was based on preliminary information about modular unit designs and did not fully consider the needs of National Guard units that are being relied on heavily to support ongoing operations. Second, the Army estimates it will need about \$18.5 billion for equipment to expand the force but has not clearly documented this estimate. Third, costs to reset equipment damaged or lost during military operations have also grown significantly and are likely to total at least \$118 billion from fiscal years 2004-2013. However, precise future reset costs are unclear, according to the Army, because they are dependent on how much equipment is lost, damaged, or worn beyond repair by continuing operations and how long military operations will continue. Finally, the Army estimates that it will need at least \$10.6 billion to replace prepositioned equipment that was taken out of storage on ships to support ongoing operations. In light of the potential magnitude of these initiatives, unless DOD carefully monitors projected costs, it will be difficult to consider tradeoffs and allocate funding to balance the Army's near-term equipment needs and long-term transformation initiatives.

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<sup>2</sup>GAO, *Defense Acquisitions: 2009 Review of Future Combat System Is Critical to Program Direction*, [GAO-08-638T](#) (Washington, D.C.: April 10, 2008).

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A common theme in our past work on these Army initiatives has been the need for DOD and the Army to take a more strategic approach to decision making that promotes transparency and ensures that equipment programs and investments are based on sound plans with measurable, realistic goals and time frames, prioritized resource needs, and performance measures to gauge progress. For example, our work on modular restructuring has shown a lack of clear linkage between the Army's equipment requirements, progress to date, and funding requests. This lack of linkage impedes oversight by DOD and congressional decision makers because it does not provide a means to measure the Army's progress in meeting its modular equipment requirements or to inform budget decisions. Also, we have reported that the Army is not effectively targeting its reset funds to meet the needs of units preparing for deployment to Iraq and Afghanistan. Further, the Army does not know if its existing prepositioned equipment requirements reflect actual needs because DOD has not developed a department-wide prepositioning strategy to guide the Army's prepositioning strategy. Oversight of these initiatives has been complicated by multiple funding requests. As a result, decision makers may have difficulty seeing the full picture of the Army's funding needs. GAO has suggested a number of actions to improve management controls, enhance transparency, and reduce the risks associated with modularity, force expansion, and reset. For example, we recommended that the Army develop a comprehensive strategy and funding plan that details the Army's modular equipping strategy and that DOD produce a prepositioning plan to guide the Army's strategy. However, many of these recommendations have not been implemented. For example, until the Army provides a comprehensive plan outlining its requirements, progress, and total costs for its modular restructuring and expansion initiatives, DOD and Congress will not have the full picture of the Army's total equipment funding needs and may lack information needed to decide how to best allocate defense resources among competing priorities.

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## Background

The Army faces enormous equipping challenges while conducting operations in Iraq and Afghanistan, and restructuring to a modular force. The Army has four key initiatives underway that impact efforts to equip the force: the establishment of modular units, expansion of the force, equipment reset, and reconstitution of prepositioned equipment.

The Army's modular restructuring initiative, which began in 2004, is considered the most extensive reorganization of its force since World War II. This transformation was initiated, in part, to support current operations in Iraq and Afghanistan by increasing the number of combat brigades

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available for deployment overseas. The foundation of modular restructuring is the creation of new, standardized, modular units that change the Army's legacy division-based force structure to smaller more numerous brigade formations embedded with significant support elements. A key goal of the modularity initiative is for modular brigades to have at least the same combat capability as a brigade under the division-based force. The new modular brigades are expected to be as capable as the Army's existing brigades partly because they will have different equipment including key enablers such as advanced communications and surveillance equipment. Moreover, in contrast to the Army's previous division-based force, modular National Guard and Army Reserve units will have the same design, organizational structure, and equipment as their active component counterparts. In addition, the Secretary of Defense announced in January 2007 an initiative to expand the Army by adding more than 74,200 soldiers and thereby creating six active brigade combat teams and additional modular support units. This planned expansion is intended to allow the Army to revitalize and balance the force, reduce deployment periods, increase time soldiers spend at home station in between deployments, increase capability, and strengthen the systems that support the forces.

The Army relies on equipment reset and prepositioned equipment to improve equipment availability. Reset is the repair, replacement, and modernization of equipment that has been damaged or lost as a result of combat operations. The Army prepositioned equipment program is an important part of DOD's overall strategic mobility framework. The Army prepositions equipment at diverse strategic locations around the world in order to field combat-ready forces in days rather than the weeks it would take if equipment had to be moved from the United States to the location of the conflict.

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## Total Costs to Fully Equip the Army Are Uncertain

The total cost to restructure and rebuild the Army is uncertain but this effort will likely require many billions of dollars and take at least several more years to complete. Our analysis of Army cost estimates and cost data indicate that it is likely to cost at least \$190 billion dollars to equip modular units, expand the force, reset equipment, and replace prepositioned equipment from fiscal years 2004 through 2013. However, these estimates have limitations and could change. For example, the Army is likely to continue to have shortfalls of some key equipment beyond then and believes it will require additional funding to equip modular units through fiscal year 2017.

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**Information on Army  
Equipping-Related Costs  
for Key Initiatives Is  
Available but Some  
Estimates Are Incomplete  
or May Change**

Although the Army has not identified a total aggregate cost for its key equipping initiatives, it has previously reported some cost estimates and cost data for equipping modular units, expanding the Army, resetting equipment, and restoring pre-positioned stocks. However, these estimates have some limitations because they are based on incomplete information, have not been updated, or may change as a result of the evolving nature and unknown duration of ongoing operations in Iraq and Afghanistan. As a result, the full costs of these equipping efforts are unclear but will be substantial. Based on our analysis of various sources of Army cost data, it appears that the cost of these initiatives will exceed \$190 billion dollars between fiscal years 2004-2013 (see table 1). These figures do not include data on Army longer term transformation efforts such as the Army's Future Combat System.

**Table 1: GAO Analysis of Estimates of Equipping-Related Costs<sup>a</sup> to Restructure, Grow and Rebuild the Army (fiscal year 2004 through fiscal year 2013)**

Dollars in billions

<b>Program</b>	<b>Estimates Based on Army Data</b>	<b>Description and limitations</b>
Equip restructured modular units	\$43.6	<ul style="list-style-type: none"> <li>• Estimate developed before unit designs were finalized.</li> <li>• Army has not revised its 2005 estimate.</li> <li>• Army plans to request additional funds to address equipment shortages in modular units through fiscal year 2017.</li> </ul>
Increase the number of and equip new Army units	\$18.5	<ul style="list-style-type: none"> <li>• Could not assess how the Army calculated this amount because Army budget documents do not identify key assumptions or the steps used to develop the estimate.</li> <li>• Army plans to accelerate the completion of this plan from fiscal year 2013 to 2010.</li> </ul>
Reset the force	\$118.5 <sup>b</sup>	<ul style="list-style-type: none"> <li>• Army stated it will require reset funding for a minimum of 2 to 3 years after hostilities end.</li> <li>• Future reset costs are unclear, according to the Army, because they depend on how much equipment is lost, damaged, or worn beyond repair during current operations and how long the operations will continue.</li> </ul>
Reconstitute repositioned stocks	\$10.6	<ul style="list-style-type: none"> <li>• Army estimates that total costs will be between \$10.6 billion and \$12.8 billion.</li> <li>• Unclear whether the Army has included these funds into future budget planning.</li> </ul>
<b>Total</b>	<b>\$191.2<sup>c</sup></b>	

Source: GAO analysis of Army information.

<sup>a</sup>These estimates include costs for both procurement and operation and maintenance.

<sup>b</sup>The estimate includes \$54 billion in funds for reset from fiscal year 2004 through fiscal year 2008, as reported by the Army in its February 2008 report to Congress. To calculate fiscal years 2009-2013 estimates, we assumed \$12.9 billion per year through fiscal year 2013, which is the average of the 2006-2007 amounts.

<sup>c</sup>There are on-going assessments of some of these estimates as part of the fiscal years 2010-2015 programming process that could lead to revised estimates, according to Office of the Secretary of Defense and Army officials.

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The John Warner National Defense Authorization Act for Fiscal Year 2007<sup>3</sup> required the Army to report annually on its progress toward fulfilling requirements for equipment reset, equipping of units transforming to modularity, and reconstitution of equipment in prepositioned stocks. In its February 2008 report,<sup>4</sup> the Army stated that there is no longer a distinguishable difference between equipment purchased for modular restructuring and other modernized fielding. The report does not address future costs in detail, nor does it provide significant detail about progress achieved to date with funds that have already been appropriated. As a result, it is becoming increasingly difficult to track overall progress and costs. The following sections further describe the cost and status of the Army's key initiatives including modular restructuring, expanding the force, resetting equipment, and restoring pre-positioned stocks. These initiatives will drive much of the costs of equipping the Army for the next several years.

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### Army Has Made Progress in Establishing Modular Units but Meeting Active and Reserve Component Modular Equipment Requirements May Cost Billions More than Originally Estimated

The Army has made progress establishing modular units but this initiative will likely cost billions more than the Army originally estimated because the Army's estimate was based on some assumptions that no longer appear valid and was developed before some modular unit designs had been finalized. As a result, the Army now believes it will require additional funding through fiscal year 2017 to equip its modular units. However, it has not revised its 2005 cost estimate to reflect this. Moreover, because it will take time to procure equipment once funds are appropriated, units may not receive all scheduled equipment until 2019.

In early 2005, the Army estimated that converting the Army to a modular design would cost approximately \$52.5 billion from fiscal years 2005-2011, which was incorporated in a funding plan approved by the Office of the Secretary of Defense. The funding plan included costs for equipment, sustainment and training, and construction/facilities. As shown in table 2, most of these funds—\$43.6 billion—were designated for equipment purchases.

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<sup>3</sup>Pub. L. No. 109-364 §323 (2006).

<sup>4</sup>United States Army, *The Annual Report on Army Progress* (Feb. 27, 2008).

**Table 2: Funding Plan for Army Modular Restructuring, Fiscal Years 2005-2011 as Reported to the Office of Management and Budget in January 2007**

Dollars in millions

Appropriation category	Fiscal Year 2005	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2010	Fiscal Year 2011	Total 2005-2011
Equipment	\$4,354	\$5,436	\$5,907	\$6,855	\$7,165	\$7,226	\$6,666	<b>\$43,609</b>
Sustainment and Training	\$0	\$1,022	\$196	\$285	\$679	\$744	\$588	<b>\$3,514</b>
Construction/Facilities	\$250	\$13	\$497	\$461	\$1,440	\$1,358	\$1,359	<b>\$5,378</b>
<b>Total</b>	<b>\$4,604</b>	<b>\$6,471</b>	<b>\$6,600</b>	<b>\$7,601</b>	<b>\$9,284</b>	<b>\$9,328</b>	<b>\$8,613</b>	<b>\$52,501</b>

Source: GAO analysis of Army data.

The Army made the decision to create modular units knowing that it would take several years after units were established to equip and staff them at authorized levels. At the end of fiscal year 2007, the Army had converted about two-thirds of its force to modular units. By the end of fiscal year 2008, the Army projects it will have converted 277 of 327 modular units (about 85 percent). The Army currently projects that the unit restructuring will be completed by fiscal year 2013. However, our ongoing work shows that the Army will continue to have significant shortfalls of key equipment that are critical to achieving the planned benefits of the modular force after the Army receives planned funding for fiscal years 2005-2011. For example, the Army projects that it will still need hundreds of thousands of modern equipment items including intelligence equipment, advanced radios, and trucks. In place of more modern equipment, many Army units will continue to have some older equipment that does not necessarily provide the same capability as the more modern counterparts.

The Army has stated that it plans to request funds through 2017 to help fill modular unit equipment shortfalls. However, it has not revised its initial \$43.6 billion estimate, even though it was based upon several assumptions that no longer appear valid.<sup>5</sup> Specifically, we have reported that the Army believes it will need additional funding to equip modular units because its 2005-2011 funding plan:

<sup>5</sup>GAO, *Force Structure: Better Management Controls Are Needed to Oversee the Army's Modular Force and Expansion Initiatives and Improve Accountability for Results*, [GAO-08-145](#) (Washington, D.C.: Dec. 14, 2007).

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- was developed before some modular unit designs had been finalized,
  - assumed that Army National Guard and reserve units would retain some older models of equipment, and
  - assumed that significant quantities of equipment would be returned from Iraq in good enough condition to help equip modular units.

Additional explanation of each of these factors follows.

At the time the Army's cost estimate was developed, the Army's modular designs were incomplete, so budget analysts were uncertain about the exact number of personnel and how many and what type of equipment items would be needed for modular units. For example, on the basis of lessons learned, the Army has reconfigured some of the modular unit designs and has added additional capabilities for force protection and route clearance to counter specific threats faced by deployed units. Further, because the number and composition of National Guard units had not been developed, budget analysts made certain assumptions about how much funding would be required by National Guard units to convert to the new modular designs. When the Army began to implement its modular restructuring initiative, it planned for the National Guard to establish 34 Brigade Combat Teams plus an additional number of support brigades. The 2006 Quadrennial Defense Review, however, recommended that the Army establish only 28 Brigade Combat Teams and convert the remaining units to support brigades.

In addition, the Army's original plan for equipping modular units also did not fully consider the equipping implications associated with the Army National Guard's changing role in supporting military operations. Since 2001, the Army National Guard's role has changed from a strategic reserve force to an operational force that is used to support a wide range of military operations at home and abroad. Prior to 2001, Army National Guard units were generally equipped with older equipment and at lower levels than comparable active duty units because it was assumed that they would have considerable warning and training time before deploying overseas.<sup>6</sup> However, senior Army officials have determined that the National Guard's modular units should be structured like those in the active component and receive similar equipment since the Guard has become an operational force that deploys along with active units. As a

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<sup>6</sup>GAO, *Reserve Forces: Plans Needed to Improve Army National Guard Equipment Readiness and Better Integrate Guard into Army Force Transformation Initiatives*, [GAO-06-111](#) (Washington, D.C.: Oct. 4, 2005).

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result, senior Army officials have stated the Army plans to request additional funds for Army National Guard equipment. In addition, the Army National Guard also has significant domestic missions, and equipment needs for those missions are uncertain. In January 2007<sup>7</sup> we issued a report on actions needed to address National Guard domestic equipment requirements and readiness. We found that DOD has not worked with the Department of Homeland Security to define National Guard requirements for responding to the 15 catastrophic scenarios developed by the Homeland Security Council. As a result, the equipment requirements and the funding needed to provide equipment for such missions are unknown.

Last, when developing its cost estimate for equipping modular units, the Army assumed that significant quantities of equipment would come back from Iraq and be available after some reset and repair work to be distributed to new modular units. Given the heavy use of equipment in Iraq and Afghanistan, this assumption may no longer be valid. The increased demands for equipment used in Iraq operations have had a dramatic effect on equipment availability. This demand reduces expected service life, creates significant repair expenses, and creates uncertainty as to whether it is economically feasible to repair and reset these vehicles. Further, more vehicles currently being operated in theater may be replaced altogether by newer vehicles offering better protection.

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## Equipment Costs to Expand the Force Are Significant

DOD's plan to expand the size of the Army by over 74,000 personnel will also add to the Army's equipment needs. This planned expansion includes building six additional active modular infantry brigade combat teams and some additional modular support units. In January 2007, the Army estimated that this expansion would cost approximately \$70.2 billion including personnel, equipment, facilities, and other costs. The equipment portion of this estimate was \$17.9 billion. However, in January 2008, we reported that the Army's overall estimate was not transparent or comprehensive.<sup>8</sup> We also found that certain aspects of the estimate, such as health care costs, may be understated and that some factors that could potentially affect the Army's funding plan are still evolving. With regard to

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<sup>7</sup>GAO, *Reserve Forces: Actions Needed to Identify National Guard Domestic Equipment Requirements and Readiness*, [GAO-07-60](#) (Washington, D.C.: Jan. 26, 2007).

<sup>8</sup>GAO, *Force Structure: Need for Greater Transparency for the Army's Grow the Force Initiative Funding Plan*, [GAO-08-354R](#) (Washington, D.C.: Jan. 18, 2008).

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equipment costs, we could not determine how the Army calculated its procurement estimate because Army budget documents do not identify key assumptions or the steps used to develop the estimate. According to best practices, high-quality cost estimates use repeatable methods that will result in estimates that are comprehensive and can also be easily and clearly traced, replicated, and updated. Given the magnitude of the Army's funding plan and potential changes to the plan, we recommended that the Secretary of Defense direct the Secretary of the Army to provide Congress with a revised funding plan for expanding the force and adhere to a high quality cost estimating methodology. In February 2008, the Army revised its overall cost estimate for expanding the force to \$72.5 billion. According to Army documents, the Army now assumes that \$18.5 billion will be needed to procure equipment for combat brigades and support units being created under the Army's expansion efforts.

Finally, in October 2007, the Army also announced a plan to accelerate the expansion implementation timelines for the active Army and Army National Guard from fiscal year 2013 to fiscal year 2010 which will likely further exacerbate equipment shortfalls. The Army has not yet developed a revised funding plan for implementing this acceleration but plans to do so as part of its effort to prepare its fiscal years 2010-2015 budget plan later this year. As a result, it is not clear how the decision to accelerate the expansion effort will affect equipment costs.

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## Equipment Reset Costs Are Growing

To improve near-term readiness of nondeployed units, the Army has received substantial funds in recent years to rebuild the force by resetting damaged, and worn equipment and reconstituting its prepositioned equipment sets. However, the Army has not identified the overall requirements for these efforts, and the total cost of these initiatives is uncertain. In addition to procuring new equipment, the Army is working to rebuild the force by resetting its existing equipment to support the ongoing conflicts as well as to equip nondeployed units. Originally, the Army estimated that equipment reset would cost \$12 billion to \$13 billion per year. Reset costs have grown significantly<sup>9</sup> from about \$3.3 billion in fiscal year 2004 to more than \$17 billion in fiscal year 2007. Our analysis of Army

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<sup>9</sup>GAO, *Defense Logistics: Army and Marine Corps Cannot Be Assured That Equipment Reset Strategies Will Sustain Equipment Availability While Meeting Ongoing Operational Requirements*, [GAO-07-814](#) (Washington, D.C.: Sept. 19, 2007).

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data shows that the Army is likely to require at least \$118.5 billion dollars from fiscal years 2004-2013 (see table 1). The Army has reported <sup>10</sup> that future reset costs will depend on the amount of forces committed, the activity level of those forces, and the amount of destroyed, damaged or excessively worn equipment. As a result, these costs are uncertain. The Army has stated that it will require reset funding for the duration of operations and estimates that it will request reset funding for an additional 2-3 years after operations cease. As operations continue in Iraq and Afghanistan and the Army's equipment reset requirements increase, the potential for reset costs to significantly increase in future DOD supplemental budget requests also increases.

We have also reported that Congress may not have the visibility it needs to exercise effective oversight and to determine if the amount of funding appropriated for equipment reset has been most appropriately used for the purposes intended because the Army was not required to report the obligation and expenditure of funds appropriated for reset in the procurement accounts at a level of detail similar to the level of detail reported in the operation and maintenance accounts.<sup>11</sup> Given the substantial amount of equipment deployed overseas, the uncertain length of operations in Iraq and Afghanistan, and the lack of transparency and accountability, it is unclear how much funding the Army will need to reset its equipment. While Army officials recently told us that they have begun to report procurement obligations and expenditures at a level of detail similar to the level of detail reported for operation and maintenance accounts, officials in the Office of the Secretary of Defense believe that all of the Army's equipping initiatives, including reset, are part of a larger Army equipping effort and they do not believe that the department needs to track these initiatives separately. We continue to believe that tracking the cost of reset is key to identifying the total cost of the Army equipment plan.

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## Timing and Cost of Reconstituting Prepositioned Stocks Is Unclear

In December 2006, the Army decided to remove equipment from its prepositioned sets stored on ships in order to accelerate the creation of two additional brigade combat teams to provide support for ongoing operations. This equipment supplemented equipment prepositioned in Southwest Asia, equipment which has been depleted and reconstituted

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<sup>10</sup>United States Army, *The Annual Report on Army Progress* (Feb. 27, 2008).

<sup>11</sup>[GAO-07-814](#).

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several times over the course of these operations. It is still unclear when these critical reserve stocks will be reconstituted or how much this will cost; however, the Army has estimated it will require at least \$10.6 billion to complete this reconstitution effort through 2013 (see table 1).<sup>12</sup> Army officials stated that prepositioned equipment sets worldwide would be reconstituted in synchronization with the Army's overall equipping priorities, when properly funded, and in accordance with the Army's prepositioning strategy, known as the Army Prepositioned Strategy 2015. We recommended in our September 2005 and February 2007<sup>13</sup> reports that DOD develop a coordinated, department-wide plan and joint doctrine for the department's prepositioning programs. Synchronizing a DOD-wide strategy with the Army's prepositioning strategy would ensure that future investments made for the Army's prepositioning program would properly align with the anticipated DOD-wide strategy. Without a DOD-wide strategy, DOD risks inconsistencies between the Army's and the other services' prepositioning strategies, which may result in duplication of efforts and resources.

In addition, we could not determine the extent to which the reconstitution of the Army's prepositioned stocks is reflected in DOD funding requests nor identify the cost estimates for restoring these prepositioned equipment sets. For example, Army officials could not provide a breakdown of the \$3.3 billion cost estimate in the fiscal year 2007 supplemental budget request to reconstitute the prepositioned stocks removed from ships. Army officials stated that the estimated cost to fully implement the prepositioning strategy would total somewhere between \$10.6 billion and \$12.8 billion between fiscal years 2008 and 2013. However, DOD's funding requests for reconstitution are difficult to evaluate because they may also include funding for other equipment-related funding requests, such as Army modularity, equipment modernization, equipment reset, or requests to fill equipment shortages. Army officials stated that separating prepositioning requirements from other requirements in their funding

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<sup>12</sup>GAO, *Defense Logistics: Army Has Not Fully Planned or Budgeted for the Reconstitution of Its Afloat Prepositioned Stocks* [GAO-08-257R](#) (Washington, D.C.: Feb. 8, 2008).

<sup>13</sup>GAO, *Defense Logistics: Better Management and Oversight of Prepositioning Programs Needed to Reduce Risk and Improve Future Programs*, [GAO-05-427](#) (Washington, D.C.: Sept. 6, 2005) and *Defense Logistics: Improved Oversight and Increased Coordination Needed to Ensure Viability of the Army's Prepositioning Strategy*, [GAO-07-144](#) (Washington, D.C.: Feb. 15, 2007).

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requests is complicated, and they do not plan to separately track funds set aside for the reconstitution of their prepositioned equipment sets.

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## The Army Lacks a Strategic Approach That Promotes Transparency and Ensures That Equipment Investments Are Based on Sound Plans

A common theme in our work has been the need for DOD and the Army to take a more strategic approach to decision making that promotes transparency and ensures that programs and investments are based on sound plans with measurable, realistic goals and time frames, prioritized resource needs, and performance measures to gauge progress. Our prior work has found that a lack of clear linkages between overall Army equipment requirements and funding needs is an impediment to effective oversight of the Army's equipping plans. Further, transparency of the funds requested for Army equipment is hindered because Army funding needs are scattered across multiple funding requests. Finally, we have suggested a number of actions to enhance transparency and reduce the risks associated with Army equipping initiatives. However, many of these recommendations have not been adopted and, as a result, the Army faces uncertainties going forward.

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## Lack of Clear Linkage between Equipment Requirements and Funding Impedes Program Oversight

The Army has not clearly linked its overall equipment requirements with funding requests. Our work has shown that major transformation initiatives have a greater chance of success when their funding plans are transparent, analytically based, executable, and link to the initiative's implementation plans. A lack of linkage between overall Army equipment requirements and funding plans impedes oversight by DOD and congressional decision-makers because it does not provide a means to measure the Army's progress toward meeting long-term Army equipment goals or to inform decisions that must be made today.

Our work on modular restructuring has shown that the Army has substantially revised its timeline for fully equipping units from an original date of 2011 to 2019 but has not provided evidence of its overall equipment requirements or specific plans, milestones, or resources required to fully equip the modular force. Meanwhile, the Army is working to expand its force beyond its original modular restructuring goals, which will lead to billions of additional dollars in requirements to equip new modular units.

The Army also does not know if its existing prepositioned equipment requirements reflect actual needs because DOD has not formulated a DOD-wide prepositioning strategy to guide the Army's prepositioning strategy. Army officials stated that its worldwide prepositioned equipment

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sets would be reconstituted in synchronization with the Army's overall equipping priorities and in accordance with its Army Prepositioned Strategy 2015. However, the Army had not established those priorities as of December 2007. Additionally, the Army Prepositioned Strategy 2015 is not correlated with a DOD-wide prepositioning strategy, because, according to DOD officials, a DOD-wide prepositioning strategy does not exist. DOD officials explained that the services are responsible for equipping strategies and that the Joint Staff conducts assessments of the services' prepositioning programs to determine their relationship within the DOD-wide strategic context. We continue to believe, however, that a DOD-wide strategy is needed in addition to an Army strategy.

Finally, the Army's reset implementation strategy is based on resetting equipment that it expects will be returning in a given fiscal year, and not on targeting shortages of equipment for units preparing for deployment to Iraq and Afghanistan. According to the Army's Army Force Generation model implementation strategy and reset implementation guidance, the primary goal of reset is to prepare units for deployment and to improve next-to-deploy units' equipment-on-hand levels. Until the Army's reset implementation strategy targets shortages of equipment needed to equip units preparing for deployment, the Army will be unable to minimize operational risk by ensuring that the needs of deploying units can be met.

Oversight of the Army's key equipment initiatives has been complicated by multiple funding requests. DOD requested operation and maintenance funds for Army prepositioned equipment in both the fiscal year 2008 annual budget request (about \$156 million) and the fiscal year 2008 request related to the Global War on Terror (about \$300 million). Army officials stated that there could be some overlap between funds requested for reconstitution of prepositioned equipment in the annual budget request and the reset of prepositioned equipment in the supplemental request. Without integrating the full costs for Army equipment needs in a single budget, decision makers may have difficulty seeing the complete picture of the Army's funding needs and the potential for trade-offs among competing defense priorities.

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## Actions Needed to Improve Management Controls and Improve Transparency of Army Equipping Efforts

We have recommended a number of actions intended to improve management controls and enhance transparency of funding requests associated with modular restructuring, force expansion, equipment reset, and repositioning of equipment stock. However, many of these recommendations have not been adopted because the Army has not developed concrete plans to address the recommendations and in some cases, disagreed with our recommendations. As a result, senior DOD leaders and Congress may not have sufficient information to assess progress and fully evaluate the Army's funding requests.

Our prior reports on the Army's modular restructuring initiative recommended that the Army improve the transparency of its equipment requirements and funding plans as well as its plan to assess the modular unit designs.<sup>14</sup> In recent years, we recommended the Army develop a comprehensive strategy and funding plan that details the Army's equipping strategy, compares equipment plans with modular unit designs, identifies total funding needs, and includes a mechanism for measuring progress in staffing and equipping its modular units. We have also recommended that the Army develop a comprehensive assessment plan that includes steps to evaluate modular units in full-spectrum combat. In January 2008, we recommended that DOD provide Congress with additional information on the Army's expansion initiative, including an updated funding plan and that the Army maintain a transparent audit trail including documentation of the steps used to develop its expansion funding plan.

We have also made recommendations intended to address short and long-term operational risks associated with Army equipment reset and repositioning strategies. Regarding the Army's equipment reset plans, we recommended in September 2007 that the Army ensure that its priorities address equipment shortages in the near term to minimize operational risk and ensure that the needs of units preparing for deployment can be met. Finally, with regard to repositioned equipment, we recommended the establishment of a DOD-wide repositioning strategy to ensure that future Army repositioning investments are aligned with DOD's repositioning goals. We continue to believe that our recommendations have merit, though many of these recommendations have not been adopted and, as a result, the Army faces uncertainties going forward.

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<sup>14</sup>[GAO-08-145](#) and GAO, *Force Structure: Army Needs to Provide DOD and Congress More Visibility Regarding Modular Force Capabilities and Implementation Plans*, [GAO-06-745](#) (Washington, D.C.: Sept. 6, 2006).

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## Concluding Observations

Restoring equipment readiness across the Army will require billions of dollars in maintenance and procurement funding but the full cost—and how long it will take—are still unclear. The uncertainty about the magnitude and duration of our military commitments further complicates and deepens the equipping challenges facing the Army. Moreover, growing fiscal problems facing the nation may lead to growing pressure on defense budgets.<sup>15</sup> Such uncertainty about the future underscores the need for sound management approaches like setting goals, establishing clear measures to track progress, and identifying full costs. Until these steps are taken, decision makers will lack key information needed to gauge interim progress and make informed choices aimed at balancing the need to restore near-term readiness while positioning the Army for the future.

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Mr. Chairman and Members of the Committee, this concludes my statement. I would be pleased to respond to any question you or other Members of the Committee or Subcommittee may have.

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## Contacts and Acknowledgments

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<sup>15</sup> GAO, *The Nation's Long-Term Fiscal Outlook: January 2008 Update*, [GAO-08-591R](#) (Washington, D.C.: Mar. 21, 2008).

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# Related GAO Products

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*The Nation's Long-Term Fiscal Outlook: January 2008 Update.* [GAO-08-591R](#). Washington, D.C.: March 21, 2008.

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*Defense Logistics: Army Has Not Fully Planned or Budgeted for the Reconstitution of Its Afloat Prepositioned Stocks.* [GAO-08-257R](#). Washington, D.C.: February 8, 2008.

*Force Structure: Need for Greater Transparency for the Army's Grow the Force Initiative Funding Plan.* [GAO-08-354R](#). Washington, D.C.: January 18, 2008.

*Force Structure: Better Management Controls Are Needed to Oversee the Army's Modular Force and Expansion Initiatives and Improve Accountability for Results.* [GAO-08-145](#). Washington, D.C.: December 14, 2007.

*Defense Logistics: Army and Marine Corps Cannot Be Assured That Equipment Reset Strategies Will Sustain Equipment Availability While Meeting Ongoing Operational Requirements.* [GAO-07-814](#). Washington, D.C.: September 19, 2007.

*Military Training: Actions Needed to More Fully Develop the Army's Strategy for Training Modular Brigades and Address Implementation Challenges.* [GAO-07-936](#). Washington, D.C.: August 6, 2007.

*Defense Logistics: Improved Oversight and Increased Coordination Needed to Ensure Viability of the Army's Prepositioning Strategy.* [GAO-07-144](#). Washington, D.C.: February 15, 2007.

*Defense Logistics: Preliminary Observations on the Army's Implementation of Its Equipment Reset Strategies.* [GAO-07-439T](#). Washington, D.C.: January 31, 2007.

*Reserve Forces: Actions Needed to Identify National Guard Domestic Equipment Requirements and Readiness.* [GAO-07-60](#). Washington, D.C.: January 26, 2007.

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*Force Structure: Army Needs to Provide DOD and Congress More Visibility Regarding Modular Force Capabilities and Implementation Plans.* [GAO-06-745](#). Washington, D.C.: September 6, 2006.

*Force Structure: Capabilities and Cost of Army Modular Force Remain Uncertain.* [GAO-06-548T](#). Washington, D.C.: April 4, 2006.

*Defense Logistics: Preliminary Observations on Equipment Reset Challenges and Issues for the Army and Marine Corps.* [GAO-06-604T](#). Washington, D.C.: March 30, 2006.

*Reserve Forces: Plans Needed to Improve Army National Guard Equipment Readiness and Better Integrate Guard into Army Force Transformation Initiatives.* [GAO-06-111](#). Washington, D.C.: October, 4 2005.

*Force Structure: Actions Needed to Improve Estimates and Oversight of Costs for Transforming Army to a Modular Force.* [GAO-05-926](#). Washington, D.C.: September 29, 2005.

*Defense Logistics: Better Management and Oversight of Prepositioning Programs Needed to Reduce Risk and Improve Future Programs.* [GAO-05-427](#). Washington, D.C.: September 6, 2005.

*Defense Management: Processes to Estimate and Track Equipment Reconstitution Costs Can Be Improved.* [GAO-05-293](#). Washington, D.C.: May 5, 2005.

*Force Structure: Preliminary Observations on Army Plans to Implement and Fund Modular Forces.* [GAO-05-443T](#). Washington, D.C.: March 16, 2005.

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