

United States Government Accountability Office Washington, DC 20548

June 1, 2009

Congressional Committees

Subject: Defense Management: Observations on DOD's Fiscal Year 2010 Budget Request for Corrosion Prevention and Control

This report formally transmits the attached briefing in response to section 2228(e) of title 10 of the United States Code (see enclosure I). The statute requires the Comptroller General to provide an analysis of the Department of Defense's budget submission for corrosion prevention and control, as well as an analysis of the corrosion report accompanying defense budget materials, and provide the results to the congressional defense committees within 60 days after submission of the Department of Defense budget. On May 26, 2009, we provided the briefing to staff of your committees to satisfy the mandate and 60-day reporting requirement.

We are sending copies of this report to the appropriate congressional committees. We are also sending copies to the Secretary of Defense; the Deputy Secretary of Defense; the Under Secretary of Defense (Comptroller); the Under Secretary of Defense (Acquisition, Technology, and Logistics); the Secretaries of the Army, Navy, and Air Force; and the Commandant of the Marine Corps. This report will also be available at no charge on our Web site at http://www.gao.gov. Should you or your staffs have any questions concerning this report, please contact me at (202) 512-8365 or solisw@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report were Tom Gosling, Assistant Director; Janine Prybyla; Matt Spiers; and Allen Westheimer.

William M. Solis Director, Defense Capabilities and Management

List of Congressional Committees

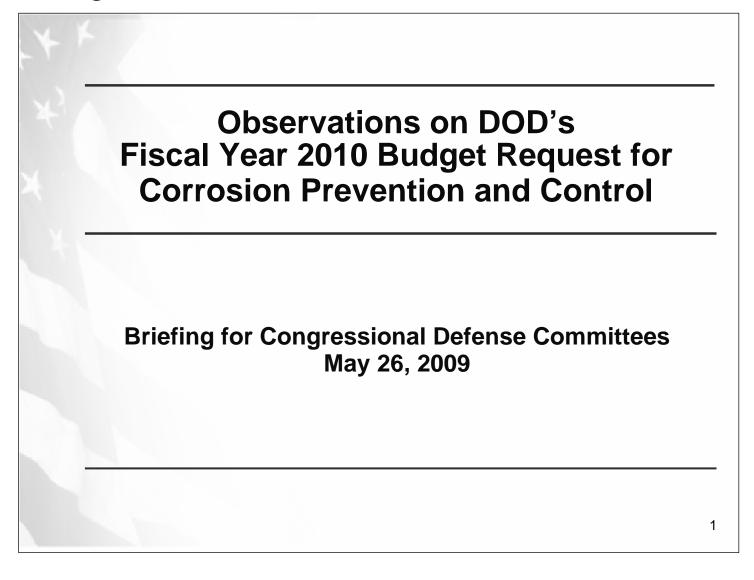
The Honorable Carl Levin Chairman The Honorable John McCain Ranking Member Committee on Armed Services United States Senate

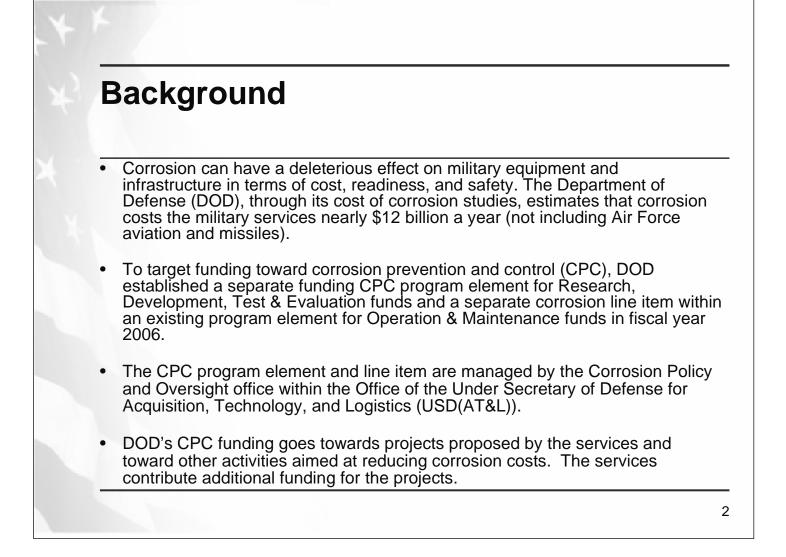
The Honorable Daniel Inouye Chairman The Honorable Thad Cochran Ranking Member Subcommittee on Defense Committee on Appropriations United States Senate

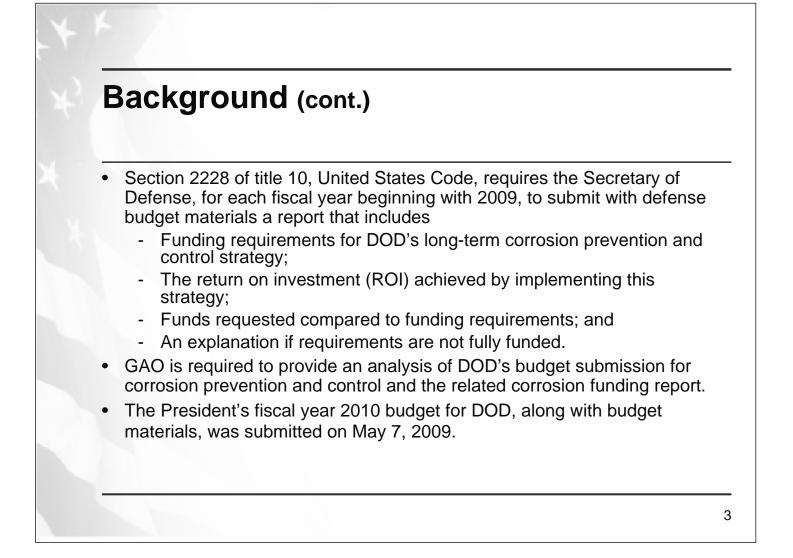
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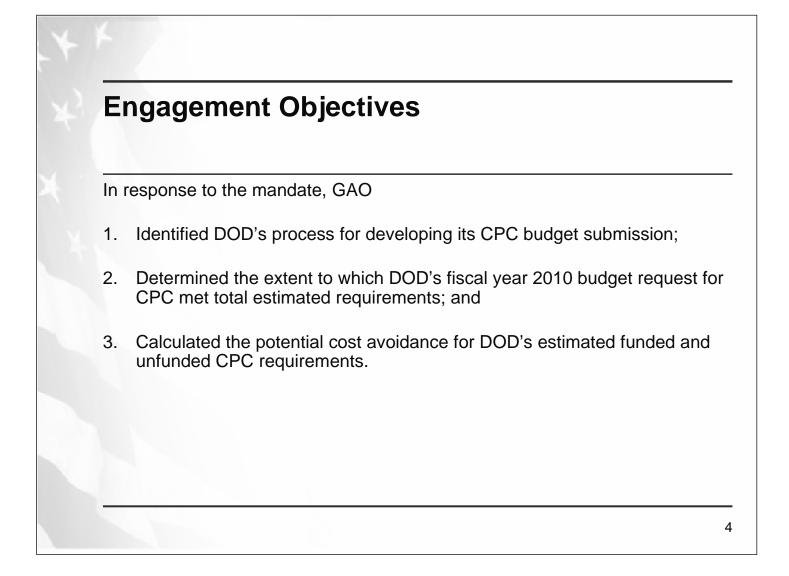
The Honorable John P. Murtha Chairman The Honorable C.W. Bill Young Ranking Member Subcommittee on Defense Committee on Appropriations House of Representatives

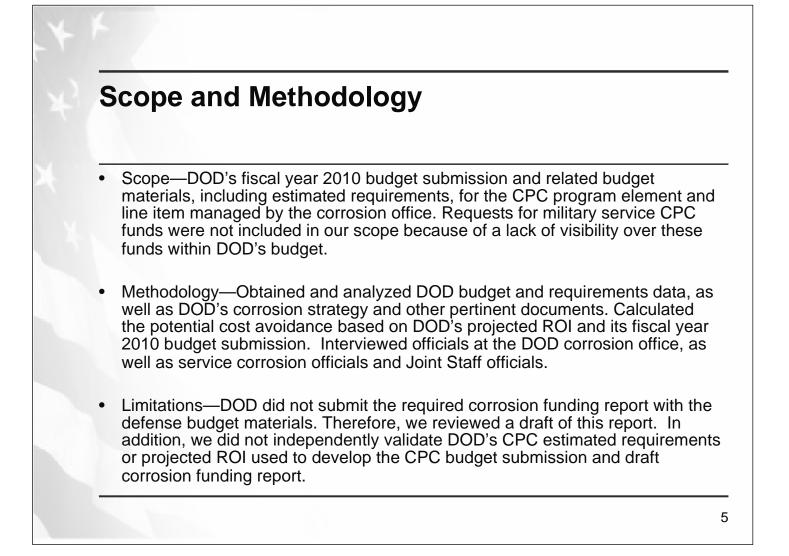
Enclosure: Briefing on Fiscal Year 2010 Corrosion Budget





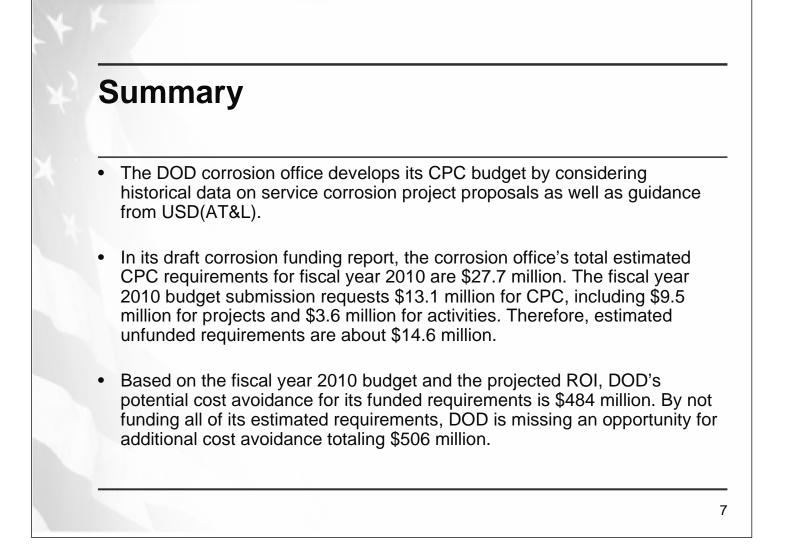








We conducted this audit from February 2009 through May 2009 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.



Objective 1: Process for Developing CPC Budget

- In developing its fiscal year 2010 CPC budget and the information for the related corrosion report, the DOD corrosion office followed a process similar to that used to develop the fiscal year 2009 budget.
- According to DOD officials, in 2008 the corrosion office asked the military services for preliminary estimates of the total number of projects that would need funding in fiscal year 2010, along with the cost of these projects.
- The corrosion office assumed, based on historical trends, that it would eventually accept about 60 percent of the total number of projects submitted by the services. By multiplying the total cost of projects submitted in the services' preliminary estimates by 60 percent, corrosion officials determined the total estimated requirements for CPC projects.
- Total estimated project requirements for fiscal year 2010 were \$21.5 million. This total does not include other non-project-related corrosion activities funded by the corrosion office. The corrosion office's estimated requirements for these activities amounted to \$6.2 million.

Objective 1: Process for Developing CPC Budget (cont.)

- The DOD corrosion office submitted a budget request of \$24.4 million to USD(AT&L). This amount represented an additional \$10.3 million over the fiscal year 2009 amount to address unfunded requirements. According to corrosion officials, USD(AT&L) denied the increase because an offset within AT&L could not be identified.
- According to DOD's draft corrosion funding report, global commitments, constrained budgets, and competing requirements preclude full funding of CPC requirements.
- Comptroller officials previously told us that while program offices may consider ROI benefits in developing budget submissions, requirements for systems and services, rather than ROI, drive funding levels in DOD's annual budget request.
- Although the services submitted their preliminary estimates in 2008, they will submit their actual project proposals in the summer of 2009. The corrosion office goes through a project selection process to make final selections of projects it will fund from the CPC program element and line item.

Objective 1: Process for Developing CPC Budget (cont.)

- DOD's current methodology for estimating CPC funding requirements may result in an inaccurate estimate of unfunded requirements.
 - The services' preliminary cost estimates can differ significantly from the total costs in their subsequent project proposals. For fiscal year 2009—the first year this process was implemented—the preliminary estimates totaled \$47.6 million compared with \$20.3 million for the actual project proposals. It is unclear why this difference occurred.
 - If the estimated requirements significantly differ from actual project proposals, DOD may not be in a position to accurately report unfunded requirements in its annual budget reports to Congress. For example, DOD estimated unfunded requirements of \$17.8 million for fiscal year 2009, but it subsequently determined that it had \$3.9 million in actual unfunded requirements following the project selection process.

Objective 1: Process for Developing CPC Budget (cont.)

CPC Project Funding (Fiscal Years 2005 through 2010) Dollars in thousands

Fiscal year (FY)	Cost of all submitted projects	Cost of projects accepted (DOD requirements)	Amount budgeted for projects	Unfunded project requirements ^a
FY 2005 actual	\$56,581	\$29,559	\$17,955	\$11,604
FY 2006 actual	37,079	21,733	10,710	11,023
FY 2007 actual	36,197	20,590	8,136	12,454
FY 2008 actual	25,114	12,128	9,238	2,890
FY 2009 Preliminary estimates ^b	47,563	28,538	10,749	17,789
FY 2009 Actual	20,266	13,698	9,803	3,895
FY 2010 Preliminary estimates ^b	35,831	21,499	9,543	11,956

Source: GAO analysis of DOD data.

^aUnfunded requirements are projects that are accepted but not funded and represent the difference between the "DOD requirements" column and the "Amount budgeted for projects" column.

^bThe preliminary estimates for fiscal years 2009 and 2010 were developed for DOD's reports to Congress, pursuant to 10 USC § 2228(e). Fiscal year 2009 was the first year that the corrosion office estimated CPC requirements.

Objective 2: DOD's Fiscal Year 2010 Budget Request for CPC

In its draft corrosion funding report, DOD estimated total CPC requirements of \$27.7 million for fiscal year 2010. DOD's fiscal year 2010 budget request includes \$13.1 million for CPC, which leaves estimated unfunded corrosion requirements of \$14.6 million. These amounts exclude funding that the services contribute.

CPC Funding (Fiscal Years 2006 through 2010)

Appropriations account	FY06 (actual)	FY07 (actual)	FY08 (actual)	FY09 (estimate)	FY10 (requested)
Operation & Maintenance	\$8,136	\$7,346	\$7,869	\$8,962	\$8,239
Research, Development, Test & Evaluation	7,402	7,124	18,253	22,279	4,887
Total	\$15,538	\$14,470	\$26,122	\$31,241	\$13,126

Dollars in thousands

Source: GAO analysis of DOD data.

Note: Congress appropriated additional CPC funding above the amounts requested in fiscal years 2008 and 2009.

Objective 2: DOD's Fiscal Year 2010 Budget Request for CPC (cont.)

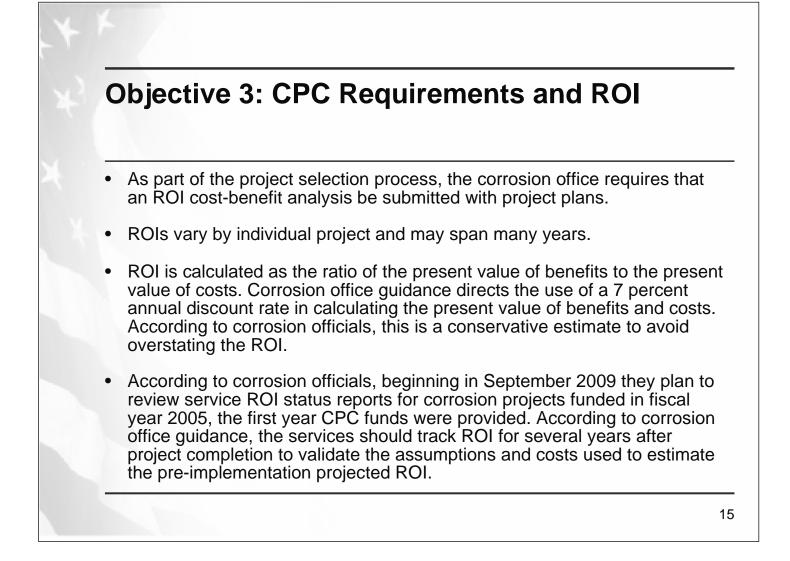
- Of the \$13.1 million requested for fiscal year 2010, about \$9.5 million is expected to fund corrosion <u>projects</u>, and \$3.6 million is expected to fund corrosion <u>activities</u>.
- While projects for fiscal year 2010 will not be accepted until summer 2009, examples of potential projects include
 - o Air Force temporary corrosion barrier coatings;
 - o Army corrosion resistant coatings for air conditioning coils;
 - o Navy coating deterioration analysis and forecasting system; and
 - o Marine Corps abrasion, chip, and wear resistant coatings for wheeled/tracked weapon systems.
- Activities may include such things as cost studies, training, and development and operation of the corrosion Web site. In the past, the corrosion office has funded the majority of its corrosion-related activities, but for fiscal year 2010 there is a \$2.6 million estimated shortfall due to an increased effort by the corrosion office to provide training opportunities.

Objective 2: DOD's Fiscal Year 2010 Budget Request for CPC (cont.)

In addition to CPC funding provided by the corrosion office, the military services provided an average of \$9.318 million in funds for corrosion projects per year for fiscal years 2006 through 2009. According to corrosion officials, these service contributions do not reduce the estimated unfunded requirements for DOD's CPC. Service contributions for fiscal year 2010 will be determined as part of DOD's project selection process.

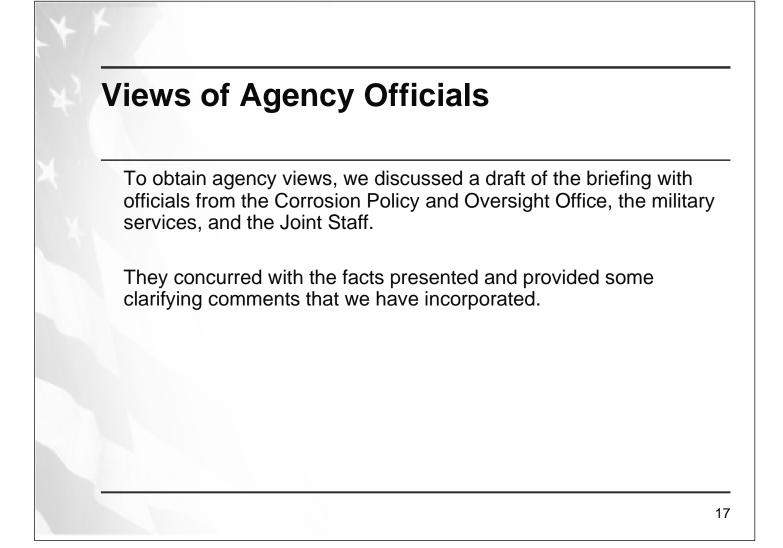
Military Service Contributions for CPC Projects (Fiscal Years 2006 through 2009) Dollars in thousands

Service	FY06	FY07	FY08	FY09	4-year average
Army	\$6,030	\$4,983	\$5,262	\$4,985	\$5,315
Navy	2,807	2,301	3,219	5,128	3,364
Air Force	1,640	468	275	173	639
Total	\$10,477	\$7,752	\$8,756	\$10,286	\$9,318
Source: GAO analysis of DOD data.					



Objective 3: CPC Requirements and ROI (cont.)

- Based on historical averages, the corrosion office projects an ROI of 50-1 for fiscal year 2010 projects and 2-1 for activities. Based on the projected ROI, if all estimated fiscal year 2010 requirements were funded, the total cost avoidance would be approximately \$990 million.
- The fiscal year 2010 budget request, if approved, would result in a potential cost avoidance of approximately \$484 million.
- Based on historical averages, the corrosion office projects an ROI of about 42-1 for projects that were accepted but not funded from fiscal years 2005 through 2009. Given the corrosion office's fiscal year 2010 estimated unfunded requirements of \$14.6 million, the potential cost avoidance for these requirements (projects and activities) would be \$506 million.



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