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Report to the Subcommittee on Defense, Committee on Appropriations, U.S. Senate

September 2002

DEFENSE BUDGET

Contingency Operations in the Balkans May Need Less Funding in Fiscal Year 2003

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Abbreviations

DOD	Department of Defense
GAO	General Accounting Office
NATO	North Atlantic Treaty Organization
OCOTF	Overseas Contingency Operations Transfer Fund

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United States General Accounting Office
Washington, DC 20548

September 27, 2002

The Honorable Daniel K. Inouye
Chairman
The Honorable Ted Stevens
Ranking Minority Member
Subcommittee on Defense
Committee on Appropriations
United States Senate

From the end of the Persian Gulf War in February 1991 through May 2002, the Department of Defense (DOD) reported over $43.9 billion in incremental costs for its overseas contingency operations.[1] These operations include the enforcement of no-fly zones, humanitarian assistance, and peace enforcement operations, as well as combating terrorism beginning in late fiscal year 2001. The majority of these costs ($29.7 billion) were incurred in the Balkans (Bosnia and Kosovo) and Southwest Asia. In fiscal year 2002, U.S. military forces are continuing to participate in a number of contingency operations, primarily in the Balkans, Southwest Asia, and a number of locations that involve combating terrorism. Appendix I contains a map depicting the location of DOD's operations for fiscal year 2002.

You asked us to review the administration's request for funding overseas contingency operations. In response to your request, we examined (1) the funding for continued operations in the Balkans and Southwest Asia for fiscal year 2002 and (2) the outlook for funding operations in the Balkans during fiscal year 2003.

To accomplish this review, we interviewed DOD and service officials who are responsible for preparing budgets and estimating costs and force levels. We also met with officials at the U.S. Mission to the North Atlantic Treaty Organization (NATO) to discuss force levels in the Balkans.

[1] "Incremental costs" means those directly attributable costs that would not have been incurred if it were not for the operation. It should be recognized that DOD's financial systems capture total obligations only and that the services use various management information systems to identify incremental obligations and to estimate costs. Although we use the term "costs" throughout this report as a convenience, we are actually referring to DOD's obligation of funds.

Results in Brief

The military services received a combination of funding provided in the DOD appropriations act for fiscal year 2002 and money remaining in previously funded contingency fund accounts. The services also took steps to reduce costs in order to keep them in line with available funding. The Army in Europe, which had the largest share of the Balkan operations' costs, took a number of steps to reduce costs. Its estimated costs for fiscal year 2002 fell by more than $500 million between the time its original estimate was developed and July 2002. This reduction was achieved through decisions to reduce the amount of personnel and equipment in both Bosnia and Kosovo and other cost-cutting measures, including reductions in contract costs under the Army's Balkan Support Contract through improved contract management and oversight. In the Balkans, the Air Force—which had the second largest share of costs in the Balkans—reduced its expected costs by $49 million, bringing costs to within $2 million of the funding provided. In Southwest Asia, the services continue to estimate costs above available funding. The Air Force and the Navy will each have to absorb about $11 million in costs while the Army will have to absorb less than $1 million within their respective overall fiscal year 2002 appropriation for operation and maintenance (which funds these costs). These amounts represent less than 1 percent of those appropriations.

Both NATO and DOD plan to reduce troop levels in the Balkans during fiscal year 2003, which may reduce funding needs during the year. The Army in Europe anticipates an overall reduction of 1,160 troops during fiscal year 2003. The Army in Europe's fiscal year 2003 cost estimate of $1.251 billion is based on a troop strength of 6,140 soldiers. This estimate is slightly higher than the Army in Europe's fiscal year 2002 cost estimate of $1.227 billion, which was based on 7,300 troops. Army in Europe officials recognize that their $1.251 billion estimate for fiscal year 2003 is too high and are working on a revised estimate. Army headquarters has told the Army in Europe to expect $1.059 billion in funding. Army in Europe officials have told us—and we agree—that a decline in troop strength does not necessarily correspond to an equal reduction in costs, but given the large anticipated reduction in troop levels, we would expect a decrease in estimated costs for fiscal year 2003. According to the Army, the fiscal year 2003 budget request was developed from an already reduced fiscal year 2002 appropriation level and that any further reduction in the fiscal year 2003 level would pose a funding challenge. Army headquarters and Army in Europe officials are working to narrow the difference between the planned funding level and estimated costs.

In official oral comments on a draft of this report, DOD concurred with the facts presented in our report. However, the Army noted that its fiscal year 2003 budget proposal is already constrained and expressed concern that the report suggests that the Army plans to migrate any available contingency operations funds to cover other Army budget needs. We are not suggesting that the Army plans to migrate any available Balkan funds. However, since Balkan funding is included in the Army's overall operation and maintenance budget, should savings from reduced troop levels materialize in excess of the Army's Balkan budget needs, any such savings could be used to address other needs within the Army's operation and maintenance budget. A detailed discussion of DOD's comments and our response is contained in the body of this report.

Background

During fiscal year 2002, U.S. military forces participated in a number of contingency operations, and Congress appropriated funds to cover DOD's costs. Contingency operations for fiscal year 2002 included efforts to combat terrorism as well as contingency operations in the Balkans and Southwest Asia. Operations in these latter two areas accounted for 17 percent of DOD's reported contingency costs for fiscal year 2002 through May 2002, the latest available data. The bulk of the costs have been incurred in combating terrorism.

In the Balkans, the United States was first engaged in Bosnia and then in the Yugoslavian province of Kosovo. U.S. involvement in Bosnia began in July 1992 as part of humanitarian relief efforts. Then, in April 1993, the United States began to participate in NATO's enforcement of a no-fly zone over Bosnia and Herzegovina in support of United Nations peacekeeping. In December 1995, the United States deployed military personnel in and around Bosnia to assist in implementing the General Framework Agreement (also known as the "Dayton Agreement"). Since then, the number of U.S. military personnel stationed in Bosnia has steadily declined from about 18,000 troops in February 1996 to about 2,500 troops in July 2002.

In March 1999, the United States provided military forces in support of NATO's combat operations against Yugoslavia following the failure of peace talks and escalating violence against ethnic Albanians in Kosovo. Combat operations officially ended on June 20, 1999. With Yugoslavia's acceptance of a peace plan and the United Nations' endorsement of a plan, the United States began providing troops for the NATO-led Kosovo force, whose mission is peace enforcement in Kosovo. The United States is currently providing 5,000 troops as part of the NATO force. In addition,

the United States has about 400 troops in the Republic of Macedonia to operate a staging base for U.S. troops entering and departing Kosovo. From the inception of operations through May 2002, Balkan costs have totaled $19.5 billion.

U.S. forces have been involved in enforcing the no-fly zone over parts of Iraq since the end of the Persian Gulf War in 1991. The U.S. force involved has on average comprised about 20,000 troops, many of them Navy and Marine Corps personnel deployed on ships. Beginning in December 1998, the United States conducted low-level air strikes against Iraq, first in support of the United Nations' weapons of mass destruction inspection efforts and then in response to Iraqi attempts to target allied aircraft enforcing the no-fly zones. From the inception of operations through May 2002, Southwest Asia costs have totaled $10.2 billion.

Following the terrorist attacks of September 11, 2001, U.S. military forces began military operations to combat terrorism. These operations fall into two categories—defense of the United States and overseas operations, principally in Central Asia to date. More than 148,000 military personnel were involved in these operations as of July/August 2002. Through May 2002, DOD's reported costs for these efforts totaled $11.1 billion.

Within budget and appropriations accounts, operation and maintenance costs account for the majority of all contingency operations costs. In fiscal years 2000 and 2001 combined, operation and maintenance costs accounted for 87 percent of the total; military personnel costs accounted for the remaining 13 percent. During fiscal year 2002 through May 2002, operation and maintenance costs accounted for 65 percent of the total; military personnel costs accounted for the balance of the costs.[2] Operation and maintenance funds are used for a variety of purposes, including the transportation of personnel, goods, and equipment; unit operating support costs; and intelligence, communications, and logistics support. Military personnel accounts fund the pay and allowances of mobilized reservists as well as special payments or allowances for all qualifying military personnel, such as Imminent Danger Pay and Family Separation Allowance.

[2] Military personnel costs represented a larger share of the overall costs in fiscal year 2002 because of the large number of reservists (more than 75,000) activated to combat terrorism.

The method for funding operations in the Balkans and Southwest Asia changed in fiscal year 2002. Prior to fiscal year 2002, Congress appropriated funds both directly to the services' appropriations accounts and to the Overseas Contingency Operations Transfer Fund (OCOTF).[3] DOD transferred funds in the OCOTF to the services' appropriations accounts as operations unfolded during the year. Any funds remaining in the fund at the end of the fiscal year were carried over to the next fiscal year. We reported in May 2002 that limited guidance and oversight, combined with a lack of cost-consciousness, contributed to some questionable expenditures of contingency funds.[4] Beginning in fiscal year 2002, DOD proposed that the funding for its Southwest Asia operations be provided directly to the services' appropriations accounts. Congress not only directly appropriated funds to the services' appropriations accounts for the U.S. operations in Southwest Asia, but directly appropriated funds for the operations in the Balkans as well. Congress also significantly reduced funding for contingency operations to encourage the services to spend funds more efficiently and effectively.

In the case of new, expanded, or otherwise unfunded operations, costs are not budgeted in advance. DOD must use funds appropriated for other activities that are planned for later in the fiscal year. If these funds are not replenished through supplemental appropriations or the reprogramming of funds from other sources, the services have to absorb the costs within their regular appropriations.

Balkans and Southwest Asia Funding for Fiscal Year 2002

The military services received a combination of funding provided by the DOD appropriations act for fiscal year 2002 and funds that remained in the OCOTF. For Balkan operations, the amount that Congress appropriated was $650 million less than the amount requested in the President's budget. For Southwest Asia operations, requested funding was included in the military services' overall accounts. The services collectively received about $24 million less in funding than they had estimated was needed. In

[3] OCOTF was established by the DOD appropriations act for fiscal year 1997 to meet operational requirements in support of emerging contingency operations without disrupting approved program execution or force readiness. The OCOTF later became a "no year" transfer account in order to provide additional flexibility to meet operational requirements by transferring the funding to the military components on the basis of actual budget execution experience as events unfold during the year of execution.

[4] See U.S. General Accounting Office, *Defense Budget: Need to Strengthen Guidance and Oversight of Contingency Operations Costs*, GAO-02-450 (Washington, D.C.: May 21, 2002).

response to the reduction in funding, the military services took steps to reduce costs in order to keep costs in line with available funding, although they will have to absorb some costs related to operations in both the Balkans and Southwest Asia. The proportion of costs that will have to be absorbed represents less than 1 percent of each of the services' appropriation for operation and maintenance.

Cost Cutting Played an Important Role in Managing Balkan Costs

The services took important cost-cutting steps to meet reduced funding levels in fiscal year 2002. Funding for Balkan operations was reduced by $650 million in fiscal year 2002 and was appropriated directly into the services' military personnel and operation and maintenance accounts. The services were generally funded at the amounts requested for military personnel and less than requested for operation and maintenance.[5] The Senate Appropriations Committee, in its report on DOD's appropriations for fiscal year 2002, suggested that providing funds directly into the services' accounts would lead to better accountability and the elimination of redundant and questionable costs.[6] Subsequently, Congress appropriated funds for contingency operations directly into the services' accounts as part of their base programs.

The Army, which had the largest share of Balkan costs, received the largest funding reduction. Within the Army, the Army in Europe, which is responsible for paying the bulk of the Balkan operations' costs, started fiscal year 2002 with a large gap between its estimated cost and the funding that the Department of the Army told it to expect. Specifically, prior to the beginning of fiscal year 2002 (in July 2001), the Army in Europe estimated that its Balkan operations would cost $1.458 billion, but it was told to expect funding of $1.152 billion with a promise of an additional $150 million later in fiscal year 2002.

To address the reduced funding, the Army in Europe took a number of steps to reduce costs. We previously reported that the Army in Europe in April 2001 provided us with its revised cost estimate for fiscal year 2002, which reflected as much as a $284 million decline in costs from DOD's initial budget estimate because of a variety of factors. The reduction

[5] Subsequently the Office of the Secretary of Defense transferred $51.4 million from the OCOTF to the Army to cover higher reserve military personnel costs because of a decision to use more reserve soldiers in the Balkans.

[6] S. Rep. No. 107-109 at 53 (2001).

reflected a reduction in the amount of personnel and equipment in both Bosnia and Kosovo, as well as declines in other costs, including those for contractors and airlift services in Kosovo. Additional troop and heavy-equipment reductions, and improved contract management and oversight of the Army's Balkan Support Contract, allowed the Army in Europe in July 2002 to further reduce its fiscal year 2002 estimate for Balkan operations by $231 million from its July 2001 estimate for fiscal year 2002. This included action on our previous report finding involving the Army in Europe's counting airlift costs twice—directly paying the Air Force for airlift charges and including transportation costs on travel orders.[7] Army in Europe officials stated that correcting this double obligation of airlift billing charges reduced costs.

The remaining $75 million difference between the Army in Europe's July 2002 estimate of $1.227 billion and the $1.152 billion in funding it had initially been told to expect will have to be covered by using funds planned for other activities within existing Army programs. In early September 2002, an Army headquarters budget official told us that the Army was still working to identify a source for the needed funds.

The Army's Forces Command, which is responsible for Army units and facilities in the continental United States and Puerto Rico, also started fiscal year 2002 with a large gap between its estimated cost and the funding the Department of the Army told it to expect. Specifically, Forces Command's original fiscal year 2002 estimate for Balkan operations was $169 million, but it was told to expect funding of $65.7 million. By February 2002, Forces Command had reduced its estimate to $116.3 million on the basis of its cost experience. In August 2002, Forces Command told us that it would reduce its costs to the $65 million in available funding as a result of continued analysis of initial estimates and actual costs.

The Air Force, which had the second largest share of Balkan costs, received $51 million less than its estimated costs of about $174 million. In August 2002, the Air Force told us that it had reduced its cost estimate for fiscal year 2002 by $49 million. This brought the estimate closer to available funding. One example of cost reduction involves the Air Force in Europe, which told us that its cost estimate had fallen by about $6 million

[7] See GAO-02-450.

as a result of savings achieved from consolidating U-2 aircraft operations and closing San Vito Air Base in Italy.

Services Will Have to Absorb Some Southwest Asia Costs

In fiscal year 2002, funds for Southwest Asia operations were also appropriated directly into the military services' accounts as part of their base programs, and traditionally any shortfall in funding would have to be absorbed by the services. The services received less funding than they had originally estimated in costs, but the gap was not as great as that for the Balkans. Within the estimates, costs for military personnel were funded as requested, but funding for operation and maintenance was below the estimates, as shown in table 1.

Table 1: Comparison of Services' Operation and Maintenance Budget Estimates and Funding Provided for Southwest Asia Operations, Fiscal Year 2002

Dollars in millions

Service	Original estimate	Funding provided	Current estimate	Difference between funding and current estimate
Army	$249.5	$207.4	$208.3	($.9)
Air Force	657.5	636.1	646.9	(10.8)
Navy	232.0	220.1	232.0	(11.9)

Source: Developed by GAO from DOD's data.

The services continue to estimate costs above available funding and in the past have had to absorb these costs within their overall operation and maintenance budget. The Army has reduced its estimated shortfall to less than $1 million, and the Air Force has reduced its estimated shortfall to $10.8 million. The Navy continues to estimate costs at its original level and so continues to have a shortfall of $11.9 million. The shortfalls represent less than 1 percent of the services' operation and maintenance appropriations for fiscal year 2002.[8]

[8] In the Fiscal Year 2002 Appropriation Act (P.L. 107-117), the Air Force was appropriated $26 billion for operation and maintenance; the Army, $22.3 billion; and the Navy, $26.9 billion.

Plans to Further Reduce Balkans Force Levels May Reduce Fiscal Year 2003 Funding Needs

Both NATO and DOD plan to reduce troop levels in the Balkans during fiscal year 2003, which may reduce funding needs to support Balkan operations during the year. The military services included funding for the Balkans in their base program funding input for the President's fiscal year 2003 budget, which was submitted to Congress in February 2002. According to the budget justification data provided with the President's budget, the Army stated that there would be a $32.1 million decrease for Balkan operations, reflecting reductions in supplies, fuel, equipment, and contract support. The Air Force included an increase of $18.8 million for operations in Bosnia, including Operation Joint Forge (peacekeeping in Bosnia) and Operation Deliberate Forge (enforcement of the no-fly zone over Bosnia).

Since February 2002, when the President's budget was submitted, NATO has agreed to reduce force levels, which could reduce costs. In the spring of 2002, NATO approved a reduction in total multinational force troop strength in Bosnia to approximately 12,000 troops. This is a decline of about 4,700 from the approximately 16,700 troops that were stationed there as of July 23, 2002. The reduction is scheduled for completion by December 2002. NATO also approved a reduction in multinational troop strength in Kosovo to approximately 29,000 troops. This is a decline of about 3,800 from the approximately 32,800 troops that were stationed in Kosovo as of July 23, 2002. These changes will occur between August 2002 and June 2003. NATO has not made any decisions regarding troop reductions by donor countries. However, officials at the U.S. Mission to NATO told us that they expected U.S. force levels to decline as part of the overall reduction and that U.S. forces would remain at about 15 percent of the total NATO force. On the basis of the overall troop strength reduction, we estimate that this could translate into a reduction of about 1,269 U.S. military personnel during fiscal year 2003.

The Army in Europe was directed by the U.S. European Command[9] to reduce troop levels in the Balkans to levels slightly below those envisioned by our pro rata estimate of the U.S. share of the NATO-directed reduction. However, on the basis of July 2002 information that we were provided with, the reduction does not appear to have lowered anticipated costs. As shown in table 2, the overall reduction totals 1,160 troops (from 7,300 to 6,140 troops) and is to take place between September and November 2002. It also includes a reduction in heavy equipment, such as tanks, Bradley

[9] The European Command is the combatant command responsible for Balkan operations.

Fighting Vehicles, and helicopters. The Army in Europe's budget estimate for its Balkan operations is $1.251 billion in fiscal year 2003 and is based on the reduced troop level. The decision to reduce force levels was made after submission of the President's budget for the fiscal year 2003 appropriation for DOD. The budget estimate for fiscal year 2003 is slightly higher than the Army in Europe's July 2002 estimate of its fiscal year 2002 costs. However, the cost estimate for fiscal year 2002 is based on higher troop levels.

Table 2: Comparison of the Army in Europe's Budget Estimates for Fiscal Years 2002 and 2003

Dollars in billions

Fiscal year	End of year troop level	Budget estimate
2002	7,300	$1.227
2003	6,140	1.251

Source: Developed by GAO from the Army in Europe's data.

In discussing the budget estimate with Army in Europe officials, we were told that they recognize that their $1.251 billion estimate for fiscal year 2003 is too high and that they are working on a revised estimate. These officials believe that their estimate for fiscal year 2003 will fall below their estimate for fiscal year 2002. To complete their revised estimate, they are working with their planners on the timing of any troop reduction, the impact that the reduction will have on the number of base camps, whether any offsetting contracts will need to be awarded to maintain some mission capability, and the support and overhead that can be eliminated. Army in Europe officials told us—and we agree—that a decline in troop strength does not necessarily correspond to an equal reduction in costs. However, given the large anticipated reduction in troop levels, we would expect a decrease in estimated costs for fiscal year 2003.

Regarding funding, Army headquarters has told the Army in Europe to expect $1.059 billion in funding. Army headquarters and Army in Europe officials are working to narrow the difference between the planned funding level and estimated costs. An Army headquarters budget official told us that the fiscal year 2003 budget request was developed from the already reduced fiscal year 2002 appropriation level and that any further reduction in the fiscal year 2003 level would pose a funding challenge.

Conclusion

Reductions in the number of troops in the Balkans, to the extent not reflected in the President's budget for fiscal year 2003, have the potential to reduce costs for fiscal year 2003 below the requested funding level. Army officials believe that their fiscal year 2003 budget proposal is already constrained. However, to the extent that savings are realized from reduced troop levels, we believe any such savings could relieve that constraint or make additional funds available for other Army budget needs if Congress appropriates the full amount requested by the President.

Agency Comments and Our Response

In official oral comments on a draft of this report, DOD concurred with the facts presented in our report. However, the Army noted that its fiscal year 2003 budget proposal is already constrained and expressed concern that the report suggests that the Army plans to migrate any available contingency operations funds to cover other Army budget needs. We noted in the report that the Army's fiscal year 2003 budget request was developed from the already reduced fiscal year 2002 appropriation level. We further noted that the Army believes that any further reduction in the fiscal year 2003 level would pose a funding challenge. We have concluded that to the extent savings are realized from reduced troop levels, any such savings could relieve that constraint or make additional funds available for other Army budget needs. We agree that to the extent savings are realized from reduced troop levels it could and should relieve any overall Balkan budget constraints for fiscal year 2003. We are not suggesting that the Army plans to migrate any available Balkan funds. However, since Balkan funding is included in the Army's overall operation and maintenance budget, should savings from reduced troop levels materialize in excess of the Army's Balkan budget needs, any such savings could be used to address other needs within the Army's operation and maintenance budget.

Scope and Methodology

To examine funding for Balkan and Southwest Asia operations in fiscal year 2002, we obtained records and conducted interviews at the Office of the Secretary of Defense, as well as at the Departments of the Army, Navy, and Air Force. We used the data obtained to compare original budget estimates, funding provided, and more current budget estimates. To ascertain steps taken to reduce costs, we held discussions with and reviewed data provided by officials in the Departments of the Army, Navy, and Air Force.

To examine the outlook for funding operations in the Balkans during fiscal year 2003, we (1) reviewed the President's fiscal year 2003 budget request and supporting budget documentation and (2) obtained budget estimates from key service elements involved in Balkan operations, particularly the Army in Europe. We obtained information on any changes in force levels planned for fiscal year 2003 from both the Army in Europe and the U.S. Mission to NATO. We then compared the force levels used in preparing the President's budget request for fiscal year 2003 with any subsequent decisions to reduce force levels since the President's budget was submitted to Congress.

We visited the following locations during our review:

- Office of the Secretary of Defense (Comptroller), Washington, D.C.
- Department of the Army, headquarters, Washington, D.C.
- U.S. Army Forces Command, Fort McPherson, Ga.
- U.S. Army Europe, Heidelberg, Germany.
- Department of the Air Force, headquarters, Washington, D.C.
- U.S. Air Force Europe, Ramstein Air Base, Germany.
- Air Combat Command, Langley Air Force Base, Va.
- Department of the Navy, headquarters, Washington, D.C.
- U.S. Mission to NATO, Brussels, Belgium.

We performed our work from February through September 2002 in accordance with generally accepted government auditing standards.

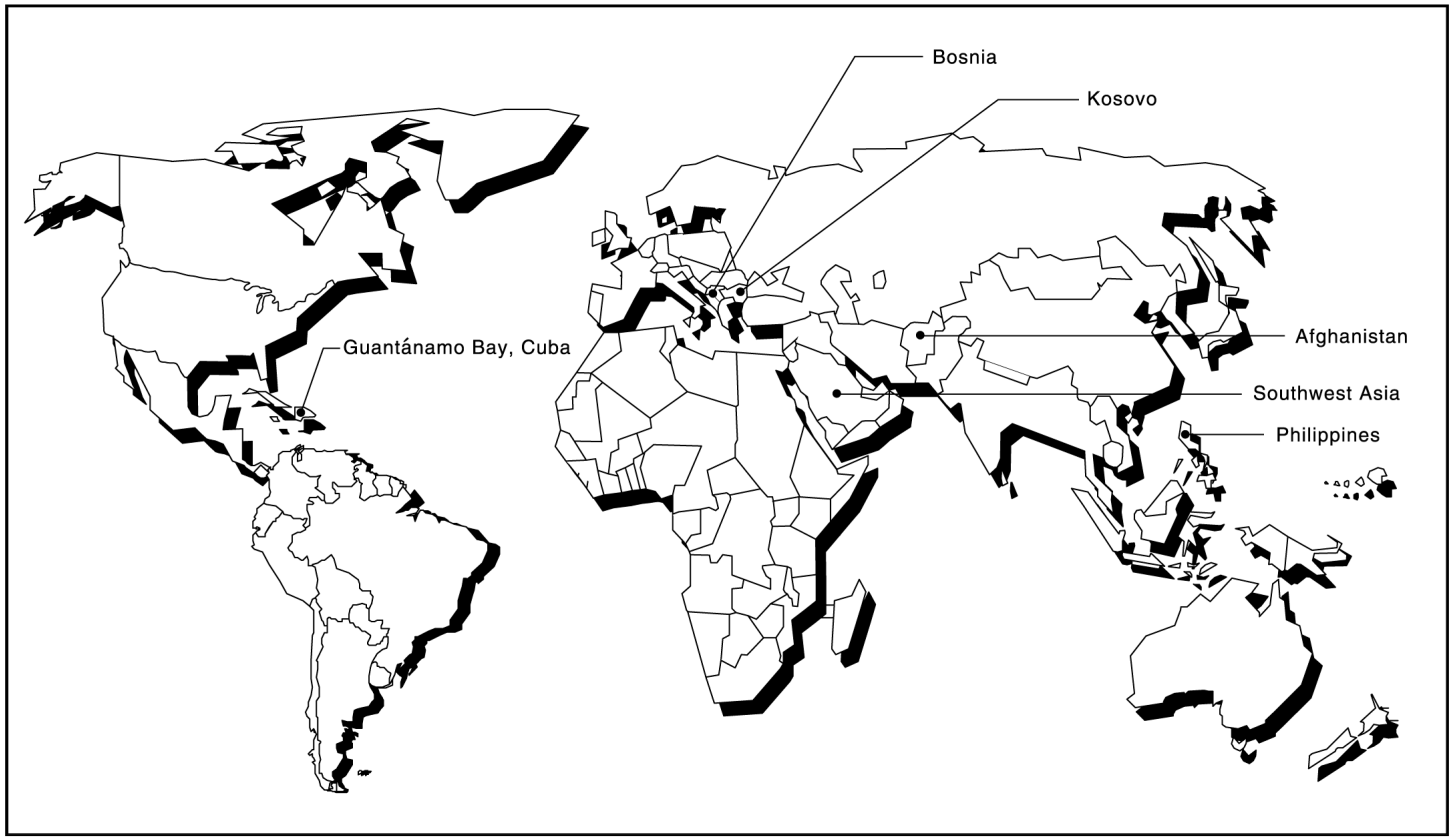
We are sending copies of this report to interested congressional committees; the Secretary of Defense; the Under Secretary of Defense (Comptroller); and the Director, Office of Management and Budget. Copies of this report will also be made available to others upon request. In addition, this report will be available at no charge on the GAO Web site at http://www.gao.gov.

If you have any questions regarding this report, please call me on (757) 552-8100. Principal contributors to this report were Steve Sternlieb, Donna Rogers, Frank Bowen, and Shamik Ghosh.

Sincerely yours,

Neal P. Curtin
Director,
Defense Capabilities and Management

Appendix I: Location of the Department of Defense's Major Contingency Operations in Fiscal Year 2002



Source: Developed by GAO from the Department of Defense's data.

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