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National Security and
International Affairs Division

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October 7, 1993

The Honorable Earl Hutto
Chairman, Subcommittee on Readiness
Committee on Armed Services
House of Representatives

Dear Mr. Chairman:

This correspondence responds to your request that we provide information on (1) the status of the Defense Management Review (DMR) program budgetary savings and (2) the impact of DMR budgetary reductions.

RESULTS IN BRIEF

The DMR initiatives are in various stages of implementation and some savings have been achieved, and the Department of Defense (DOD) comptroller officials project that additional savings will occur in the future. However, our prior work, and Army and Navy audit agency work have addressed the difficulty of validating and tracking savings to specific initiatives. Moreover, the extent to which savings have resulted from the initiatives or from other factors such as reduced workloads, changes in force structure, or defense downsizing is not easy to determine. Finally, according to DOD officials, budgetary reductions from the DMR initiatives have not had any adverse impact on their operations.

BACKGROUND

The DMR report, issued in July 1989, outlined actions needed to improve DOD management. In January 1990, DOD issued a status report containing specific management improvement actions intended to save an estimated \$39 billion between fiscal years 1991 and 1995. To achieve these savings, DOD planned on reducing and consolidating various functions and activities, streamlining operations, and reducing the number of civilian and military personnel associated with these activities.

Since January 1990, DOD has made a number of adjustments to the program. These include reducing program savings projections, extending the savings period for two additional years, and identifying additional savings associated with new initiatives. As a result, DOD in April 1992 projected DMR savings to be \$71.1 billion for fiscal years 1991 through 1997 (Air Force, \$22.5 billion; Navy, \$21.6 billion; Army, \$20.9 billion; and Defense Agencies, \$6.1 billion).

In early 1993, DOD comptroller officials, in a presentation to the Odeen panel,¹ estimated that changes to the future years defense program, force reductions, and workload reductions could result in total DMR savings of approximately \$62.8 billion rather than \$71.1 billion. The savings reductions, however, were not related to specific DMR initiatives. According to the May 1993 Odeen report, the revised savings estimate of \$62.8 billion was overstated by \$9 billion to \$11 billion.

STATUS OF SAVINGS

According to DOD comptroller officials, DOD has achieved about \$8.6 billion in savings as a result of DMR initiatives already implemented--\$3 billion in fiscal year 1991 and \$5.6 billion in fiscal year 1992. These savings are categorized by functional areas such as logistics; administration; base operations and facility management; automated support and information systems; and finance, procurement and contract management. DOD also projects that recurring savings from these same initiatives will total \$24 billion for fiscal years 1993 through 1997.

DOD agreed with the Odeen report and projects future savings from other management initiatives that have not yet been fully implemented. However, according to DOD officials and audit agencies, some of these savings may not be achieved for a variety of reasons such as program changes, reliability of the estimates, force-level reductions, or reduced workloads. For example, the reduction in force structure has placed less demand on depot level maintenance and thus, there are fewer opportunities for savings.

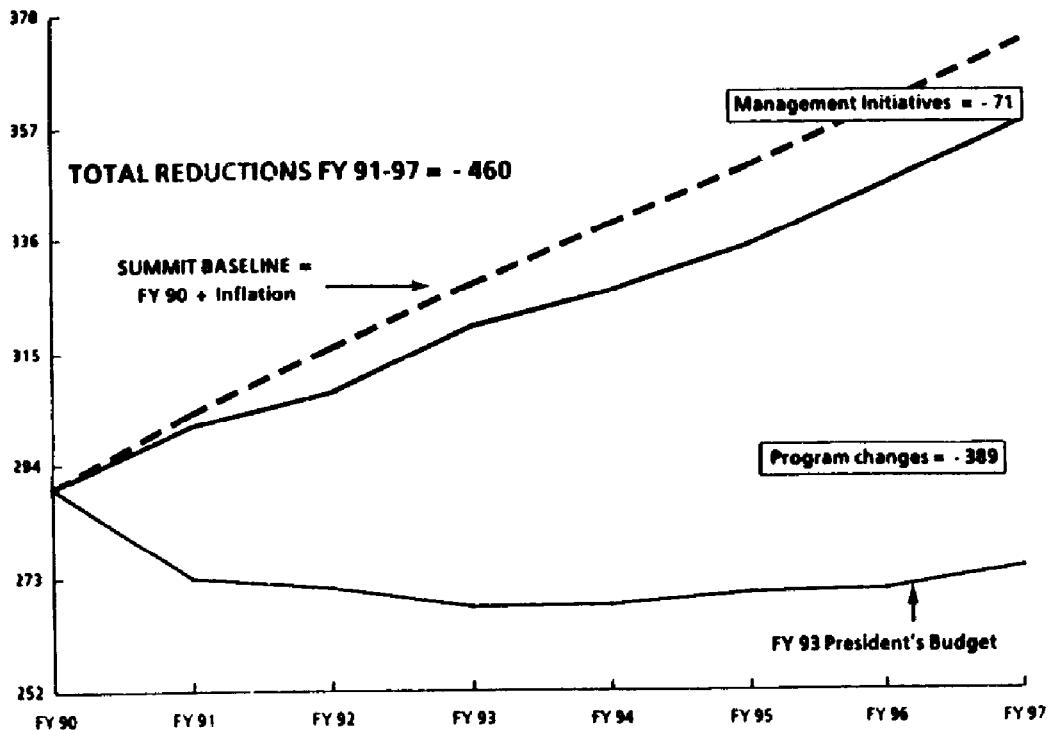
¹The Secretary of Defense convened a three-member panel to review budget projections, including projected DMR savings, made by the previous administration. The panel was chaired by Philip A. Odeen and subsequently became known as the Odeen panel.

Our previous work, and Army and Navy audit agency work, have discussed how difficult it is to validate and track savings to specific initiatives because of limited documentation and the absence of a standard automated accounting/information system. It also emphasized the difficulty in determining whether the savings were related to a DMR initiative or to other factors such as force-level reductions, reduced workloads, or defense downsizing. In August 1993, DOD accepted the May 1993 Odeen panel report recommendation that tracking of the DMR savings be discontinued because of the many changes to the program baseline. DOD officials told us they would not continue to track savings but would continue to track implementation of the initiatives.

IMPACT OF DMR BUDGETARY REDUCTIONS

DOD comptroller officials used figure 1 to show the magnitude of its projected budget reductions for fiscal years 1991 through 1997. This comparison showed budget reductions totaling \$460 billion--\$71 billion in DMR savings and \$389 billion in program changes. This chart shows that the projected budget reductions taken for DMR savings were made against future years funding levels that were never achieved.

Figure 1: DOD's Estimated Budget Reductions For Fiscal Years 1991 - 1997
(Dollars in Billions)

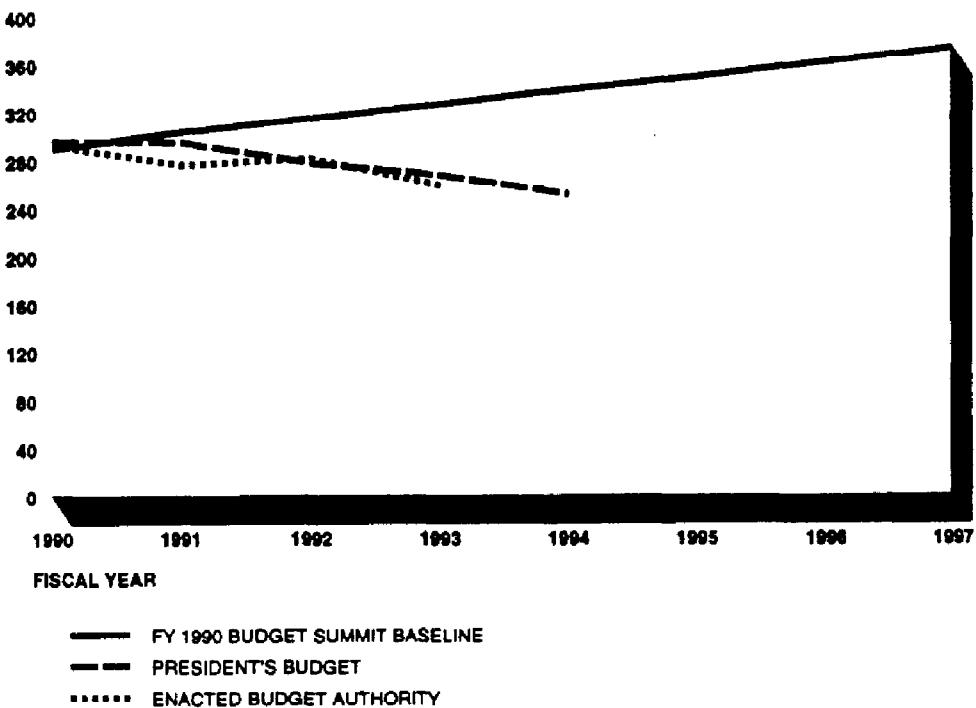


Source: DOD

Figure 2 illustrates our comparison of DOD's fiscal year 1990 budget summit amounts, in a then growing future years defense budget, with funding levels and budget requests for fiscal years 1990 through 1993. DOD's funding levels closely coincide with its requests, and both have gradually declined since 1990 rather than continuing to escalate, as projected by the budget summit baseline. As we have previously reported, DOD's spending plans have historically been overstated when compared to budget realities.²

²Statement of Charles A. Bowsher, Comptroller General of the United States before the Committee on Armed Services, United States Senate, Defense Budget and Program Issues Facing the 102nd Congress, GAO/T-NSIAD-91-21, April 25, 1991.

Figure 2: Fiscal Year 1990 Budget Summit Baseline Compared to DOD'S Enacted and Projected Budgets
(Dollars in Billions)



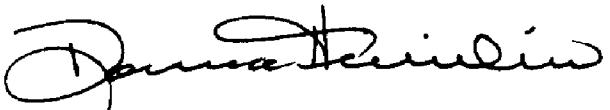
Officials from each of the services comptroller offices told us that budgetary reductions tied to the DMR initiatives have not had any adverse impact on their services. According to these officials, they have made program tradeoffs and adjusted program funding levels accordingly in order to implement the initiatives and stay within their actual budgets.

In addition, in testimony before your Subcommittee on DOD's fiscal year 1994 budget request, the Vice Chief of Staff, U.S. Air Force stated that the operation and maintenance budget is adequate for near-term readiness and sustainability; the Vice Chief of Staff, U.S. Army stated that through improved resource management and increased efficiencies, it has been able to maintain readiness; and the Vice Chief of Naval Operations stated that although they were taking higher readiness risks, the budget was adequate to support the Navy and the nation's requirements.

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If you have any questions, please contact Assistant Director, John Klotz or me on (202) 512-8412.

Sincerely yours,



Donna M. Heivilin, Director
Defense Management and NASA Issues

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