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DOD BULK FUEL

Budgeting for Bulk Fuel and Other Operation and Maintenance Activities

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Mr. Chairman and Members of the Subcommittee:

We appreciate the opportunity to be here today to discuss our work on the military services' budgeting for bulk fuel.¹ The bulk fuel budgeting issues I will describe, however, may be symptomatic of a larger issue relating to how the services estimate requirements for operation and maintenance (O&M) activities.² Our work has shown a recurring pattern of the Department of Defense (DOD) estimating that it needs more funds than it obligates for some O&M activities.³

My statement focuses on

- the services' use of O&M funds and their latitude in obligating the funds,
- specific overestimating of funds needed for bulk fuel, and
- bulk fuel as one example of the services' overestimating their needs for some activities within the O&M account.

The O&M Budget and What It Provides for

The O&M appropriation provides the services with funds to carry out day-to-day activities such as the recruitment and fielding of a trained and ready force, equipment maintenance and repair, child care and family centers, transportation services, civilian personnel management and pay, and maintenance of the infrastructure to support the forces.

The services have a great deal of flexibility as to how they obligate O&M funds,⁴ and we recognize the need for flexibility. We also recognize that the amounts obligated will rarely agree with the estimated requirements reflected in the budget request. However, the issue is to what extent DOD's budget estimates should reflect actual experience. For example, our analysis of certain O&M activities shows a pattern of the estimated requirements being more than what is obligated. Conversely, for other O&M

¹DOD Bulk Fuel: Services' Fuel Requirements Could Be Reduced and Funds Used for Other Purposes (GAO/NSIAD-96-96, Mar. 28, 1996).

²The words "activity" and "activities" are generally used in this statement to refer to "items of expense," which is the term used in appropriations law.

³In our analysis of O&M activities below the level of detail shown in the budget, we compared the amount obligated to DOD's estimated requirements. We were unable to compare the obligated amounts to the amounts appropriated for the O&M activities because that information is not available at the DOD or services' headquarters level.

⁴Some limitations have been imposed on this flexibility. If a service moves more than \$20 million from one budget activity to another, for example, from operating forces to mobilization, the move is subject to normal reprogramming procedures. If a service moves \$20 million or more from certain subactivity groups within a budget activity, for example, from combat units to depot maintenance, it is required to provide prior written notification to the congressional defense committees.

activities, our analysis shows a pattern of the estimated requirements being less than what is obligated. When these patterns consistently appear, a question should be raised as to whether the budget estimates accurately portray the services' needs.

Determining Bulk Fuel Requirements

The Defense Fuel Supply Center (DFSC) has the primary responsibility for providing the services with the fuel they need. DFSC purchases the fuel from commercial sources and sells it to the services. Although DFSC is the primary source, the services also buy a small amount of fuel directly from commercial sources.

As part of our annual review of the services' fiscal years 1996 and 1997 O&M budget requests, we compared the estimated requirements for bulk fuel as reflected in the O&M budget requests to the amount of fuel DFSC estimated it will sell to the services. Our reviews show that DFSC's planned fuel sales to the services were less than what the services estimated their requirements to be in their budget requests.

The services determine their fuel requirements and budget requests based on flying hours, steaming days, tank training miles, and base operation needs. The services advise DFSC of their requirements so DFSC can determine the amount of fuel it will need to satisfy the services' operating requirements and for war reserves and its other customers' needs. DFSC estimates the amount of fuel the services will buy from it based on the services' historical usage data adjusted for events expected to occur during the fiscal year.

Services Overestimate Bulk Fuel Needs

In their budget submissions for fiscal year 1996, the services estimated their requirements for bulk fuel to be \$4.12 billion: \$4.01 billion for fuel from DFSC and \$107 million for fuel from commercial sources.

In February 1996, DFSC estimated that the services' fuel purchases in fiscal year 1996 would be about \$3.57 billion, or about \$440 million less than the approximately \$4 billion the services had estimated. The services' budget estimates and DFSC's estimated sales are shown in the table 1.

Table 1: Bulk Fuel Requirements in the Services' Fiscal Year 1996 Budget Requests and DFSC Estimated Sales to the Services

Service	Estimated requirements in February 1995 budget submission		DFSC estimated sales as of February 1996		Difference	
	Barrels	Dollars	Barrels	Dollars	Barrels	Dollars
	Army	10.5	\$316.9	7.5	\$236.2	3.0
Navy	46.5	1,461.2	39.3	1,236.6	7.2	224.6
Air Force	69.7	2,235.2	66.7	2,100.9	3.0	134.3
Total	126.7	\$4,013.3	113.5	\$3,573.7	13.2	\$439.6^a

^aThe overestimated fuel requirements affect the O&M appropriation as well as other appropriations. Neither we nor DOD could determine the specific amounts for each appropriation.

It should be noted that DFSC's February 1996 estimate of fuel sales to the services is lower than the sales estimated when the services submitted their budget requests in February 1995. In our report on potential reductions to the fiscal year 1996 O&M budget, we estimated that the services would purchase about \$3.7 billion of fuel in fiscal year 1996, or about \$330 million less than the services' estimated requirements.⁵

DOD officials do not agree that their bulk fuel budget requests were overstated. In commenting on our March 1996 report, they said that fuel is a major element of logistics preparedness and is budgeted in O&M accounts so that they can respond to changing requirements. DOD also said that the amount of fuel used was greater than the amount requested for 2 of the past 4 years (fiscal years 1992-95). As a result, DOD did not agree with our suggestion in the report that funds for bulk fuel be reduced.

We agree that fuel requirements change, and we have considered those changing requirements in our analysis of bulk fuel. For example, when we reviewed the fuel budget request in May and June 1995, we estimated the services' purchases for fiscal year 1996 as \$116.8 million barrels of fuel for about \$3.7 billion. In our March 1996 report, we noted that DFSC's estimate of the services' purchases for fiscal year 1996 was reduced to 113.5 million barrels at a cost of about \$3.6 billion. Therefore, the difference between the services' budget estimates for fiscal year 1996 and DFSC's estimates had increased.

⁵1996 DOD Budget: Potential Reductions to Operation and Maintenance Program (GAO/NSIAD-95-200BR, Sept. 26, 1995).

We do not agree, however, that the services used more fuel in 2 of the past 4 years than was reflected in the budget requests. The documentation provided by DOD to support its position showed that the services had used more fuel than was reflected in the budget requests due to fuel used during contingency situations. DOD based its position on a comparison of total fuel used—for normal operational needs and contingency situations—to the budget request, which did not include supplemental funds used to finance contingency operations.

Additionally, the services return fuel to DFSC for credit.⁶ However, it is unclear whether the services consistently consider the returns or only gross purchases when they estimate their annual fuel needs. For fiscal year 1996, DFSC estimates that the Navy and the Air Force will return about 6 million barrels for credit valued at about \$189 million. According to DOD officials, the fuel credits represent funds that the services then obligate for other purposes.

Our analysis of the estimated bulk fuel requirements reflected in the fiscal year 1997 budget requests shows that the services continue to overestimate their needs. The services estimated their requirements as 117.8 million barrels of fuel at a cost of about \$3.8 billion. DFSC estimates that the services' fuel purchases will be about 113.2 million barrels, costing about \$3.6 billion, or about \$183 million less than the \$3.8 billion the services requested. (See table 2.) However, the difference between the services' and DFSC's estimates is not as significant as in fiscal year 1996. DOD, the services, and DFSC have worked to ensure that the estimates are more closely aligned. For example, the Navy changed the basis for its requirements from a 4-year average to a 3-year average and recognized changes in deployment patterns of its military sealift ships. This had the effect of reducing the average use to reflect current consumption and operating patterns.

⁶As ships and aircraft are readied for maintenance, the fuel tanks are emptied and the fuel is returned to DFSC for credit.

Table 2: Bulk Fuel Requirements in the Services' Fiscal Year 1997 Budget Requests and DFSC Estimated Sales to the Services

Numbers in millions

Service	Estimated requirements in February 1996 budget submission		DFSC estimated sales as of May 1996		Difference	
	Barrels	Dollars	Barrels	Dollars	Barrels	Dollars
Army	9.2	\$294.8	8.2	\$261.7	1.0	\$33.1
Navy	43.7	1,398.3	42.5	1,356.6	1.2	41.7
Air Force	64.9	2,102.9	62.5	1,995.0	2.4	107.9
Total	117.8	\$3,796.0	113.2	\$3,613.3	4.6	\$182.7^a

^aThe overestimated fuel requirements affect the O&M as well as other appropriations. Neither we nor DOD could determine the specific amounts for each appropriation.

Overestimated Requirements Are Not Limited to Bulk Fuel

As I mentioned at the beginning of my statement, overestimating for bulk fuel requirements may be symptomatic of a larger issue. In other reports, we identified similar patterns of differences between estimates reflected in the services' budget submissions and ultimate obligations for particular O&M activities.⁷

We recognize that DOD has faced and will continue to face unplanned for contingencies that it will have to pay for by moving funds. However, we have also noted that certain O&M activities are consistently overestimated, while others are consistently underestimated. For example:

- In our April 1995 report on Army training, we pointed out that about \$1.2 billion, or one-third, of the \$3.6 billion designated for operating tempo⁸ for U.S. Forces Command and U.S. Army, Europe, forces in fiscal years 1993-94 was used to fund other O&M activities. These activities included base operations, real property maintenance, and contingency operations in Somalia and Haiti. According to Army officials, funds were moved from operating tempo to the other O&M activities because the activities were either unfunded (contingency operations) or underfunded (base operations and real property maintenance).

⁷Army Training: One-Third of 1993 and 1994 Budgeted Funds Were Used for Other Purposes (GAO/NSIAD-95-71, Apr. 7, 1995); Depot Maintenance: Some Funds Intended for Maintenance Are Used for Other Purposes (GAO/NSIAD-95-124, July 6, 1995); and Operation and Maintenance Funding: Trends in Army and Air Force Use of Funds for Combat Forces and Infrastructure (GAO/NSIAD-96-141, June 4, 1996).

⁸Operating tempo is the pace of unit training that the Army believes it needs to conduct to maintain its fleet of tracked and wheeled vehicles at a prescribed readiness level. Operating tempo funds cover the cost of fuel, reparable spare parts, and consumable spare parts.

The use of operating tempo funds for other O&M activities is an issue that we have repeatedly pointed out in our annual O&M budget reviews. The Army requests and receives funds to operate its combat vehicles at 800 miles per vehicle per year to achieve a prescribed readiness level. However, since fiscal year 1992, the Army has consistently operated at a reduced rate—about 630 miles per vehicle per year in fiscal year 1995—and obligates the remaining operating tempo funds for other O&M activities. In spite of operating at a reduced rate, reported readiness levels have not suffered.

- In our July 1995 report on depot maintenance, we reported that during fiscal years 1993-95, the Army and the Navy received about \$591 million more than they requested for depot maintenance. A comparison of the amount of depot maintenance work done to the amount of funds requested and received shows that for fiscal years 1993-94, the services obligated about \$485 million less for depot maintenance than the amount requested and about \$832 million less than the amount received. The funds requested but not obligated for depot maintenance were obligated for military contingencies and other O&M activities such as real property maintenance and base operations.

According to service officials, the depot maintenance backlogs are manageable and represent an acceptable minimal level of risk. They attribute the lack of adverse effect to the funding levels; the levels of depot maintenance work done; and the reductions to the force levels, which have made more equipment available to the remaining forces.

These examples are typical of what we recently reported on O&M funding trends. In our June 1996 report, we showed that the estimated needs reflected in the Army's and the Air Force's budget requests for many O&M activities were often overestimated for fiscal years 1993-95 when compared to the amounts they obligated for those activities. This pattern was particularly true for the Army, which obligated less funds for its combat units than it estimated it would need and less than the amount provided in the conference reports to the appropriation acts for this activity. Conversely, the Army obligated more than it estimated it would

need for infrastructure and management activities, again obligating more than cited in the conference reports.⁹

For fiscal years 1993-95, the amount of funds the Army obligated for O&M activities related to combat forces and support of the forces was \$900 million less than the \$11.9 billion estimated requirements reflected in its budget request. When training and recruiting funds are also considered, the Army obligated about \$1.3 billion less than the estimated requirements. In total, about 64 percent of the Army's fiscal years 1993-95 O&M budget requests was for infrastructure-type functions like base support and management activities. However, about 70 percent of the Army's O&M funds were obligated for these purposes.

In addition, funds obligated for an O&M activity may not reflect the actual costs of that activity. Each of our previous Chief Financial Officers Act financial audits of the military services shows that DOD decisionmakers did not have reliable cost information available to consider in their deliberations. For example, our work showed that the Army could not generate data on actual costs incurred for Desert Shield and Desert Storm operations. Instead, the Army reported obligations from its existing systems. As a result, the costs of materials consumed during Desert Shield and Desert Storm—but obligated in a prior period—were not included in costs reported on an obligational basis.¹⁰

This represents another example of the need for effective financial management systems throughout DOD. Since our February 1990 report,¹¹ which was our first attempt to audit the fiscal year 1988 financial statements of the Air Force, we have noted that DOD's systems do not effectively account for and control actual costs incurred. In November 1995, we expressed our concern over the pace of needed systems improvements.¹² Until DOD takes action to correct these systems

⁹In our analysis, we categorized O&M activities as being related to combat forces and support of forces; training and recruiting; base support; or management, command, and servicewide activities. These categories were based on criteria developed by the Institute for Defense Analyses, the Joint Chiefs of Staff, and the Office of Program Analysis and Evaluation. These categories do not always agree with those the services used in their budget requests.

¹⁰Financial Management: Immediate Actions Needed to Improve Army Financial Operations and Controls (GAO/AFMD-92-82, Aug. 7, 1992).

¹¹Financial Audit: Air Force Does Not Effectively Account for Billions of Dollars of Resources (GAO/AFMD-90-23, Feb. 23, 1990).

¹²Financial Management: Challenges Facing DOD in Meeting the Goals of the Chief Financial Officers Act (GAO/T-AIMD-96-1, Nov. 14, 1995).

deficiencies, its decisionmakers will continue to receive inaccurate and unreliable data from their systems.

Conclusions

We fully recognize that because of unforeseen circumstances and changes in funding priorities, the services need flexibility in how they obligate their O&M funds. And, we know that the amounts obligated will rarely agree with the estimated requirements reflected in budget requests. However, we also believe that accurate budget estimates are an essential component of fiscal responsibility and that identifying and fully understanding variations—and recurring patterns among variations—between estimates and actual results will enhance and facilitate budget decision-making.

Mr. Chairman, this concludes my prepared statement. I would be pleased to answer any questions that you or members of the Subcommittee may have.

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