January 18, 2008

Congressional Committees

Subject: Force Structure — Need for Greater Transparency for the Army’s Grow the Force Initiative Funding Plan

In January 2007, the Secretary of Defense announced an initiative to expand the Army from a total of 1,037,000 to 1,112,000 active and reserve soldiers by fiscal year 2013—an increase of 74,200 military personnel—in order to meet increasing strategic demands and to help reduce stress on the force. This planned expansion includes building six additional active modular brigade combat teams and additional modular support units, which will require a substantial increase in funding for personnel, equipment, and infrastructure. Currently, the Army estimates this expansion may require about $70 billion in increased funding through fiscal year 2013 and a significant amount in annual funding thereafter to sustain the expanded Army. The President’s fiscal year 2008 budget request contained $7.7 billion for Department of the Army funding related to the Grow the Force initiative.

During the course of our review of Army modularity as required by the John Warner National Defense Authorization Act for Fiscal Year 2007, we analyzed the $70.2 billion Grow the Force initiative funding plan. We are submitting this letter to you at this time to provide the results of our analysis for your consideration as your committees evaluate DOD’s fiscal year 2009 defense budget submission, which will request additional funding to grow the force. Specifically, we examined the supporting documentation and comprehensiveness of the $70.2 billion funding plan. We will issue a separate report in spring 2008 in response to the authorization act’s requirement for GAO to report on the Army’s transformation to the modular force in fiscal year 2008. We will also be reporting on the Army’s planning and budgeting process for Grow the Force facilities.

To assess the Army’s supporting documentation for its funding plan to Grow the Force, we analyzed Army and Department of Defense (DOD) budget materials and discussed the key assumptions and cost estimating methodology used to develop the

1 The modular support units are the following: two combat support brigades, one fires brigade, one air defense brigade, one engineer brigade, and two sustainment brigades.
funding plan with relevant Department of the Army, Army Reserve, and Army National Guard officials. We also assessed the extent to which the Army documented its cost estimate by reviewing Army and best practices guidance on cost estimating and by analyzing the Army’s documentation for its cost estimate. We conducted our work at the Office of the Under Secretary of Defense (Comptroller), Department of the Army Headquarters, U.S. Army National Guard and U.S. Army Reserve Command. We conducted this performance audit from April 2007 to January 2008 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 determined that the Army budget data we used were sufficiently reliable for our review.

Results in Brief

The Army has not developed a transparent and comprehensive funding plan for its Grow the Force initiative that allows decision makers to understand the full magnitude of the funds needed and weigh competing defense priorities. First, the Army’s Grow the Force funding plan lacks transparency because Army budget materials and other documentation do not indicate how the Army developed the cost estimates that served as the basis of its $70.2 billion funding plan to grow the force. Army budget officials told us that they had limited time to prepare the funding plan before the President submitted the budget in February 2007. However, according to best practices, cost estimates should be transparent, comprehensive, and easily replicated and updated to help ensure the validity of the estimate. Second, the Army’s funding plan is not comprehensive and may be somewhat understated because some costs were excluded and some factors are still evolving that could potentially affect the Grow the Force funding plan. For example, the $70.2 billion funding plan did not include over $2.5 billion for health care and educational support assistance associated with increasing personnel levels. In addition, in October 2007 the Chief of Staff of the Army announced a plan to accelerate the Grow the Force implementation timelines for the active Army and Army National Guard from fiscal year 2013 to fiscal year 2010, which could increase costs such as budgeting for the hiring of military and civilian personnel sooner than programmed. The Army has an opportunity to update its Grow the Force initiative funding plan to reflect a more transparent and comprehensive approach. Without more complete information, decision makers could have difficulty understanding the basis for any future estimates the Army submits and weighing competing priorities. We are recommending that the Secretary of Defense require the Army to (1) develop and provide Congress with an updated Grow the Force funding plan to support congressional oversight of the fiscal year 2009 budget submission, and (2) document the steps and sources of information used to develop an updated funding plan. DOD generally agreed with these recommendations.

Background

The Chief of Staff of the Army stated in September 2007 that increasing the size of the Army will 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 February 2007 force structure plan sought to increase by six the number of active brigade combat teams from 70 to 76 and the number of support brigades from 212 to 225. The initiative proposes to permanently increase Army end strength by about 74,200 in the active Army, Army National Guard, and Army Reserve by fiscal year 2013, as identified in table 1.

Table 1: Proposed Increases in Army End Strength by Component in Fiscal Years 2007—2013

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<tr>
<td>Active Army</td>
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<td>7,000</td>
<td>7,000</td>
<td>7,000</td>
<td>7,000</td>
<td>1,000</td>
<td>0</td>
<td>65,000</td>
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<td>1,319</td>
<td>1,247</td>
<td>1,335</td>
<td>1,432</td>
<td>1,487</td>
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<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1,010</td>
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<tr>
<td>Total</td>
<td>36,000</td>
<td>8,319</td>
<td>8,247</td>
<td>8,335</td>
<td>8,432</td>
<td>2,487</td>
<td>2,391</td>
<td>74,211</td>
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Note: Numbers may not add due to rounding.

The Grow the Force initiative represents a shift in DOD’s force structure plans outlined in the 2006 Quadrennial Defense Review (QDR). In fiscal year 2004, the Army’s authorized active end strength was 482,400 active military personnel. Since that time, the Army was granted authority to increase its active end strength by 30,000. The rationale for this increase was to provide flexibility to implement its transformation to a modular force while continuing to deploy forces to overseas operations. Rather than return the active Army end strength to the 482,400 level by fiscal year 2011, as decided in the 2006 QDR, DOD’s 2007 proposal calls for increasing the active Army’s permanent end strength by 65,000 to 547,400 by fiscal year 2013.

Army budget materials identify the $70.2 billion funding plan by appropriation through fiscal year 2013 (see table 2). DOD budget officials told us that the $70.2 billion funding plan was included in DOD’s 2008—2013 Future Years Defense Program but was not identified as a separate program. Rather, the funding was included within the total for each respective appropriation because the Army developed its program budget based on the total Army end strength. The Grow the Force funding plan includes onetime costs for procurement and military construction and recurring costs associated with military and civilian personnel and operation and maintenance.

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Table 2: Army Fiscal Year 2007—2013 Funding Plan for the Grow the Force Initiative as of January 2007

<table>
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<td>4.6</td>
<td>5.2</td>
<td>5.5</td>
<td>5.6</td>
<td>25.4</td>
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<td>2.6</td>
<td>2.9</td>
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<td>4.3</td>
<td>2.6</td>
<td>16.1</td>
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<td>Procurement</td>
<td>0.9</td>
<td>4.1</td>
<td>4.2</td>
<td>5.1</td>
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<td>0.6</td>
<td>0.0</td>
<td>17.9</td>
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<tr>
<td>Military Construction</td>
<td>0.4</td>
<td>2.4</td>
<td>4.3</td>
<td>2.4</td>
<td>0.7</td>
<td>0.5</td>
<td>0.1</td>
<td>10.8</td>
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<tr>
<td>Total</td>
<td>1.3</td>
<td>7.7</td>
<td>15.0</td>
<td>15.0</td>
<td>12.0</td>
<td>10.9</td>
<td>8.3</td>
<td>70.2</td>
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</table>


Note: Numbers may not add due to rounding.

$ Funds for fiscal year 2007 were contained in the Department of Defense Fiscal Year 2007 Emergency Supplemental Request for the Global War on Terror.

The Army’s Grow the Force Funding Plan Is Not Transparent or Comprehensive

The Army has not developed a transparent and comprehensive funding plan for its Grow the Force initiative that allows decision makers to understand the full magnitude of the costs and weigh competing priorities. There is a lack of transparency in how the Army developed the cost estimate that served as the basis for the $70.2 billion funding plan. The Army estimated the costs to implement the Grow the Force initiative at $70.2 billion, according to Army and Office of the Secretary of Defense budget officials. However, based on our review of Army budget materials and other documentation, it is not clear how the Army developed this estimate. For example, Army documents do not identify key assumptions, limitations, or the steps used to develop the estimates. Army budget officials told us that they had limited time to prepare the cost estimates and funding plan before the President submitted the budget in February 2007. However, 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. The Army Cost Analysis Manual states that cost analysts must document all steps in the development of a cost estimate, including ground rules and assumptions. The analyst must also state the source of all data and the processes used to analyze the data. The Army has not demonstrated that it followed its guidance for developing its Grow the Force cost estimate.

In addition to a lack of transparency, the Army’s February 2007 Grow the Force funding plan is not comprehensive and may be understated because some costs were

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excluded and some factors are still evolving that could potentially affect this funding plan:

- **The $70.2 billion funding plan provided to Congress excluded operation and maintenance funds for health care and educational support assistance totaling over $2.5 billion.** According to the Office of the Under Secretary of Defense (Comptroller), the Army’s funding plan did not include about $2.3 billion in health care support assistance and about $217 million in educational assistance associated with increasing personnel levels. Army officials told us these costs were excluded from the Army’s funding plan because the funds are provided respectively in the Defense Health Program appropriation and Defense-wide Department of Defense Education Activity appropriation. Nonetheless, Congress needs to understand the full magnitude of costs to DOD as it considers the Army’s Grow the Force initiative.

- **The number of Army civilians to be hired is likely understated.** A senior Army civilian personnel official said the Army’s funding plan included only a small number of civilians needed to be hired because there was limited time to develop the estimate. Army major commands are conducting a detailed mission needs analysis to identify overall civilian personnel requirements. As a result, this official expects the number of civilians needed to be hired to increase, thereby further increasing costs.

- **The Chief of Staff of the Army announced in October 2007 a plan to accelerate the Grow the Force implementation timelines for the active Army and Army National Guard from fiscal year 2013 to fiscal year 2010.** The Army initially identified the completion date of this initiative for all Army components as fiscal year 2013. However, in October 2007 the Chief of Staff of the Army announced a plan to accelerate the Grow the Force implementation timelines for the active Army and Army National Guard from fiscal year 2013 to fiscal year 2010. An Army official in the Office of the Deputy Chief of Staff for Programs stated that the Army is currently reviewing the cost estimates for accelerating its planned force expansion. Accelerating the implementation timeline could incur additional costs for reasons such as the following:
  - The Army would have to budget for the hiring of military and civilian personnel sooner than programmed.
  - The Army may have to increase recruitment and retention incentives to meet end strength goals.
  - Procuring equipment sooner than planned could require renegotiating contracts, keeping production lines open longer, and paying overtime to workers to meet increased production goals.

- **The locations of the active and reserve units to be built were unknown when the funding plan was developed.** Because the locations of the new units were unknown when the Army developed its cost estimate, the Army used standard cost calculations to determine its military construction estimate, which excluded environmental costs. Out of concern about the lack of an overall plan to station and accommodate permanent additional soldiers with the necessary facilities, Congress restricted the Army from spending certain military construction funds for the Grow the Force initiative until the
Secretary of Defense submits a detailed stationing plan to support Army end-
strength growth to the Committees on Appropriations of the House of
Representatives and Senate. In response to this reporting requirement, on
December 18, 2007, the Army submitted to Congress a Grow the Force
stationing plan that identifies facilities necessary for brigade combat teams,
combat service and combat service support units, training, and quality of life
support facilities such as barracks, unit operations facilities, maintenance
facilities, and family housing. In particular, the Army plans to build facilities
for six infantry brigade combat teams: two at Fort Carson, Colorado; two at
Fort Stewart, Georgia; and two at Fort Bliss, Texas. The Army stated it will
revise its initial $10.8 billion military construction cost estimate based on the
announced stationing locations and will include a full cost determination and
resource strategy as part of the fiscal year 2009 President’s budget request and
the fiscal years 2009—2013 Future Years Defense Program. The Army noted
that because the process of land acquisition for federal agencies requires
multiple approvals, and a series of environmental and real estate planning
studies, the December 2007 Army Stationing Plan did not identify installation
expansion actions. As a result, there could be additional land acquisition and
environmental costs that may not be included in the updated estimates.

Changes to the force structure that served as the basis of the $70.2 billion
funding plan could affect overall costs. The Army’s $70.2 billion funding plan
was based on a force structure plan of six infantry brigade combat teams and
additional support brigades, but Army officials were still working on the
specific force structure requirements of the expanded Army in February 2007
when they developed the funding plan. As a result, changes to the initial force
structure plan could increase costs. For example, the costs to procure heavy
or stryker brigade combat team—related equipment are more expensive than
for infantry brigades. An Army procurement official provided us standard
equipment estimates for brigade combat teams: Infantry ($590 million);
Stryker ($1.7 billion to 1.9 billion); and Heavy ($1.2 billion to 2.5 billion). Army
officials stated the force structure plan has been revised since February 2007
but the Department of the Army has not approved a final force structure
document.

Given the magnitude of the Army’s funding plan and potential changes to the plan
since DOD submitted its budget in February 2007, the Army should be prepared to
fully explain and document the basis for its funding plan. The Army has an
opportunity to update its Grow the Force funding plan to reflect a more transparent
and comprehensive approach, given that the Army plans to request future funding.
Without complete information on the Army’s $70.2 billion funding plan, decision
makers will have difficulty understanding the full magnitude of costs and weighing
competing priorities.

7 U.S. Troop Readiness, Veterans’ Care, Katrina Recovery, and Iraq Accountability Appropriations Act,
8 The December 2008 Army Stationing Plan incorporates the acceleration of the implementation
timelines for active and National Guard end strength from fiscal year 2013 to 2010.
Conclusion

Because the Army’s funding request lacks transparency, and is not well-documented and comprehensive, the Congress may not have the information needed to consider the long-term costs and benefits associated with increasing Army personnel levels or gauge the amount of funding that should be appropriated to implement the initiative each year. To help illuminate the basis for its request, the Army needs to describe its process for documenting and revising its Grow the Force cost estimate, the proposed force structure plan, implementation timelines, and how it plans to manage and implement this initiative given competing priorities for funding. The Army has an opportunity to address these issues and facilitate congressional oversight of DOD’s fiscal year 2009 budget request. Without more complete information on the Army’s $70.2 billion funding plan, decision makers will have difficulty understanding the full magnitude of costs and weighing competing priorities.

Recommendations for Executive Action

To support congressional oversight of the Army’s Grow the Force initiative and DOD’s upcoming fiscal year 2009 budget request, we are recommending that the Secretary of Defense direct the Secretary of the Army to take the following two actions:

- Provide Congress with additional information on the Army’s Grow the Force initiative at the earliest possible date, but not later than March 30, 2008. This information should include the following:
  - The force structure to be created by this initiative and associated implementation timelines.
  - A revised Grow the Force funding plan.
  - The cost estimating methodology used to develop the Grow the Force funding plan, including (1) key assumptions, (2) key factors that could affect the Grow the Force funding plan, and (3) a clear definition of costs that were excluded from the estimate.

- Maintain a transparent audit trail including documentation of the steps used to develop the Grow the Force funding plan.

Agency Comments and Our Evaluation

In written comments on a draft of this report, DOD agreed with our recommendations and cited actions it will take to implement the recommendations. DOD comments are presented in their entirety in appendix I.

Specifically, DOD agreed to (1) provide Congress with additional information on the Army’s Grow the Force initiative not later than March 30, 2008, and (2) maintain a transparent audit trail including documentation of the steps used to develop the Grow the Force funding plan. In explaining how it planned to address our first recommendation, DOD stated that it would identify the Army’s Grow the Force implementation timelines, force structure, and funding plan in the Army’s December 2007 Grow the Army Stationing Plan, the Army’s Fiscal Year 2008 Annual Report on
Army Progress, the Army Campaign Plan, and its revised funding estimates. We believe these are positive steps. However, until DOD and the Army issue all of the stated documents, we cannot determine the extent to which these actions will improve the transparency of the Army’s Grow the Force cost estimates and funding plan. Identifying the Army’s cost estimating methodology as well as DOD-wide Grow the Force requirements as part of an updated Grow the Force funding plan would provide a more transparent basis for understanding the full magnitude of related requirements and costs.

In explaining how it planned to address our second recommendation, DOD stated that although the Army’s year-to-year staffing, equipping, and facilities are not identified as a separate budget activity, the Army will identify requirements and funding associated with the Grow the Force plan in the development of the fiscal year 2010/2011 defense budget and preparations for the fiscal year 2010—2015 Future Years Defense Program. While we recognize the Army will not develop a separate budget activity for the Army’s Grow the Force funding plan, there is a need for transparency of the Army’s Grow the Force funding plan given the significant amount of funding requested ($70.2 billion). In addition to identifying requirements and funding plans to complete this initiative, we believe the Army needs to maintain a transparent audit trail to demonstrate how its Grow the Force funding request is linked to Army requirements.

We are providing this letter today to relevant congressional defense committees. If you or your have staff have any questions about this report, please contact me at (202) 512-4402 or e-mail me at stlaurent@gao.gov. Key contributors to this report were Wendy Jaffe, Assistant Director, Kelly Baumgartner, Grace Coleman, Barbara Gannon, Terry Richardson, Kathryn Smith, and Karen Thornton.

Janet A. St. Laurent
Managing Director, Defense Capabilities and Management
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United States Senate

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JAN 18 2008

Ms. Janet A. St. Laurent
Director, Defense Capabilities and Management
U.S. Government Accountability Office
441 G Street, NW
Washington, D.C. 20548

Dear Ms. St. Laurent:

This is the Department of Defense (DoD) response to the GAO draft report “Need for Greater Transparency for the Army’s Grow the Force Initiative Funding Plan,” dated December 18, 2007 (GAO Code 351128/GAO-08-354R). The Department concurs with the two GAO recommendations and our comments are enclosed.

The Army’s Grow the Force initiative is not a discrete budget element of Army equipping, staffing, operations, and facilities. This initiative was framed in the Fiscal Year (FY) 2008 defense budget. The Department is increasing the Army end-strength by more than 74,000 and is addressing the manning, equipping, and facilities needs for the new and augmented combat and support brigades for those personnel. In December, the Department provided to Congress the Army’s end-strength growth stationing plan. This, with the Army’s FY2008 Annual Report on Army Progress and revised funding estimates provide the force structure, timelines, and funding plan for the Army’s Grow the Force initiative.

The Army’s year to year equipping, staffing, and readiness plans are considered Department resourcing priorities and are based on: (1) deployment needs to fulfill missions; (2) existing Army equipment and personnel; (3) planned upgrades and expansions; and (4) emerging needs. Oversight of equipping, manning, and readiness plans comes through existing Department requirements, readiness, acquisition, and resourcing entities including the Joint Requirements Oversight Council, Senior Readiness Oversight Council, Defense Acquisition Board, and the Comptroller. The Department continually seeks to improve these management and oversight processes for better overall efficiency.

Sincerely,

[Signature]

David G. Ahern
Director
Portfolio Systems Acquisition

Enclosure:
As stated

[Stamp]
Appendix I: Comments from the Department of Defense

GAO DRAFT REPORT – DATED DECEMBER 18, 2007
GAO CODE 351128/GAO-08-354R

"Need for Greater Transparency for the Army’s Grow the Force Initiative Funding Plan"

DEPARTMENT OF DEFENSE COMMENTS
TO THE RECOMMENDATIONS

RECOMMENDATION 1: The GAO recommends that the Secretary of Defense direct the Secretary of the Army to provide Congress with additional information on the Army’s Grow the Force initiative at the earliest possible date, but not later than March 30, 2008. This information should include:
   o The force structure to be created by this initiative and associated implementation timelines;
   o A revised Grow the Force funding plan and;
   o The cost estimating methodology used to develop the Grow the Force funding plan, including: (1) key assumptions, (2) key factors that could affect the Grow the Force funding plan; and (3) a clear definition of costs that were excluded from the estimate.

DOD RESPONSE: Concur. In December the Department provided the Army’s end-strength growth stationing plan to the Congress. This, in conjunction with the Army’s Fiscal Year 2008 Annual Report on Army Progress, submitted in accordance with section 323 of the John Warner National Defense Authorization Act for Fiscal Year 2007, the Army Campaign Plan, and revised funding estimates will frame the Grow the Force structure, implementation timelines, and funding plan.

RECOMMENDATION 2: The GAO recommends that the Secretary of Defense direct the Secretary of the Army to maintain a transparent audit trail including documentation of the steps used to develop the Grow the Force funding plan.

DOD RESPONSE: Concur. Although the Army's year-to-year equipping, staffing, and facilities plans are not discretely segregated in the budget by initiatives such as the Army's Grow the Force, the Army will identify requirements and funding associated with the Grow the Army plan in the development of the Fiscal Year 2010/2011 Defense Budget and preparations of the Fiscal Year 2010-2015 Future Years Defense Program.
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