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

July 2001

DEFENSE BUDGET

Need for Continued Visibility Over Use of Contingency Funds



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United States General Accounting Office
Washington, DC 20548

July 6, 2001

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

Since the end of the Persian Gulf War in February 1991, the Department of Defense (DOD) has reported over \$25 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. The majority of these costs (\$22 billion) have been incurred in the Balkans (Bosnia and Kosovo) and Southwest Asia. In fiscal year 2001, U.S. military forces are continuing to participate in a number of contingency operations, primarily in the Balkans and Southwest Asia. Appendix I contains a map depicting the location of DOD's operations for fiscal year 2001.

In response to your request, we examined (1) the adequacy of DOD's incremental contingency operations funding for all ongoing contingency operations in fiscal year 2001, (2) DOD's estimated contingency operations costs for fiscal year 2002, and (3) the ramifications of DOD's plan to change the method for funding its operations in Southwest Asia. At your request, we are also continuing to examine DOD's management of its contingency operations expenditures, including the economy and efficiency with which these funds are spent, and will report our results at a later date.

¹As used in this report, "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 cannot reliably determine costs and that only the total obligations are captured by the Department's accounting systems. 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

Existing funds are sufficient to cover DOD's estimated costs for contingency operations for fiscal year 2001. In January 2001, the Office of the Secretary of Defense (Comptroller) revised the estimates made in developing the President's fiscal year 2001 budget on the basis of information provided by the military services and other defense agencies and its own assessment of what constituted legitimate contingency costs. The Comptroller's office concluded that some costs had increased while other costs had decreased and that, on balance, there was sufficient funding for fiscal year 2001. On the basis of more current data through June 2001, we made an updated assessment of fiscal year 2001 contingency operations' costs, concluding that existing contingency funding was still sufficient to cover estimated costs and that the latest available data suggested that about \$121 million may remain available at the end of the fiscal year. Accordingly, the administration's request for \$32 million in additional appropriations for the Army reserve component's increased participation in contingency operations, which was included in the original fiscal year 2001 supplemental appropriation request, is unnecessary. The request for fiscal year 2001 supplemental funding has since been amended, eliminating the \$32 million and requesting that the Congress rescind \$61 million in funds previously appropriated for contingency operations. The Department is taking action to reprogram the remaining funds.

Since DOD developed its original fiscal year 2002 budget estimate for contingency operations in fiscal year 2002, estimated costs have declined by \$284 million. Specifically, in April 2001, the Army in Europe estimated that its costs in the Balkans may decline by as much as \$284 million because of a variety of factors, including reductions in the number of personnel and the amount of equipment deployed there. In June 2001, the administration submitted a revised fiscal year 2002 budget for DOD, which reflected the \$284 million decline. In addition, the administration is currently conducting a review of its policy toward Iraq, the results of which could affect the scope of DOD's operations in Southwest Asia.

DOD is transferring the funding for its Southwest Asia operations to the services' direct appropriations accounts beginning in fiscal year 2002 rather than fund these operations through its contingency operations fund, which could have both positive and negative ramifications. The positive ramification is that appropriating funds directly to the services' appropriations accounts could provide an added incentive to better control costs. The negative ramification is the possible loss of visibility for Southwest Asia funds because of (1) the substantial movement of funds within the services' operation and maintenance accounts as has occurred

over a period of years and (2) the possible discontinuance of cost reporting for operations in Southwest Asia.

We have identified several matters for congressional consideration regarding the need for additional funds in fiscal year 2001, the need to ensure that the President's budget request for fiscal year 2002 is adjusted upon the completion of the Iraq policy review to reflect the results of the review, and steps that could be taken to mitigate the potentially negative consequences of appropriating funds for Southwest Asia operations directly to the services' appropriations accounts.

Background

During fiscal year 2001, U.S. military forces are participating or have participated in a number of contingency operations, and the Congress has appropriated funds to cover DOD's costs. The largest ongoing contingency operations are in the Balkans and Southwest Asia. DOD budgets for the cost of ongoing contingency operations, and the Congress has appropriated funds for these operations to the services' military personnel accounts and the Overseas Contingency Operations Transfer Fund (the Transfer Fund). DOD transfers funds out of the Transfer Fund to the DOD components' appropriation accounts as operations unfold during the year. Any moneys remaining in the Transfer Fund at the end of a fiscal year remain available until expended. In the case of new, expanded, or otherwise unfunded operations, such as at the onset of operations involving Kosovo, costs are not budgeted in advance. DOD's components request funds from the Transfer Fund as long as they are available or 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 components have to absorb the costs within their regular appropriations.

Out of the \$25 billion in the incremental costs that DOD has reported for overseas contingency operations since 1991, \$15.1 billion has been for U.S. military involvement in the Balkans through September 2000. U.S. involvement in the Balkans began in July 1992 as part of humanitarian relief efforts in Bosnia, Herzegovina, and Croatia and expanded in April 1993, when the United States began to participate in the North Atlantic Treaty Organization's (NATO) enforcement of a no-fly zone over Bosnia and Herzegovina. In December 1995, U.S. troops deployed as part of a multilateral coalition under NATO command in and around Bosnia to assist in implementing the General Framework Agreement (also known as the Dayton Agreement). The number of U.S. military personnel in Bosnia has steadily declined from about 18,000 in February 1996 to about 4,300 in

April 2001. In addition to U.S. military personnel in Bosnia, about 250 U.S. military personnel are stationed in Hungary, which shares a border with Bosnia, in support of operations in Bosnia.

In June 1999, 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 about 5,600 troops as part of a NATO force. In addition, the United States has about 400 troops in Macedonia to operate a staging base for U.S. troops entering and departing Kosovo.

From the end of the Persian Gulf War in 1991 through September 2000, DOD reported \$7.1 billion in incremental costs for its operations in Southwest Asia. U.S. forces have been involved in enforcing no-fly zones in Southwest Asia since the end of the Persian Gulf War. The size of the U.S. force varies substantially depending on the level of tension with Iraq. Of the 15,000-20,000 personnel in the area, many are Navy and Marine Corps personnel deployed on ships.

Existing Funds Are Sufficient to Cover the Cost of DOD's Contingency Operations in Fiscal Year 2001

The funds that the Congress appropriated for fiscal year 2001 contingency operations should be sufficient to cover the estimated costs for these operations. In January 2001, DOD estimated that there were sufficient funds for fiscal year 2001 operations but that these funds will be completely utilized, leaving no carry over of funds in the Overseas Contingency Operations Transfer Fund that could be applied to funding requirements for fiscal year 2002. Our June 2001 analysis of DOD's costs reached the same conclusion: that there are sufficient funds for contingency operations in fiscal year 2001 but that June 2001 data suggest that after adjusting for cost increases and decreases about \$121 million may be available at the end of the fiscal year, owing largely to management efficiencies that the Army in Europe has achieved in Balkan operations. Because funds already appropriated are sufficient for DOD's fiscal year 2001 operations, a requested \$32 million for contingency operations contained in the original June 2001 request for supplemental funding in fiscal year 2001 for DOD is unnecessary. The request for fiscal year 2001 supplemental funding has since been amended, eliminating the \$32 million and requesting that the Congress rescind \$61 million in funds previously appropriated for contingency operations. DOD is taking action to reprogram part of the savings achieved by the Army in Europe.

DOD Revises Cost Estimates but Concludes That Funding Is Sufficient

On the basis of its review of contingency operations costs, completed in January 2001, DOD concluded that existing funds are sufficient to cover the estimated cost of these operations. According to DOD's budget submission for fiscal year 2001, ongoing contingency operations in fiscal year 2001 were estimated to cost almost \$4.2 billion. (See table 1.) On an operational basis, about \$3.1 billion (75 percent) was for operations in the Balkans. Most of the remainder was for Southwest Asia, with the balance of about \$4 million planned for operations in East Timor.

Table 1: Estimated Costs for DOD's Contingency Operations, Fiscal Year 2001

Dollars in millions				
	Military personnel	Operation and maintenance	Miscellaneous procurement	Total
Bosnia	\$153.4	\$1,234.4	\$20.8	\$1,408.6
Kosovo	194.5	1,455.9	62.6	1,713.0
Total Balkans	\$347.9	\$2,690.3	\$83.4	\$3,121.6
Southwest Asia	144.8	913.7		1,058.5
East Timor	0	3.9		3.9
Total	\$492.7	\$3,607.9	\$83.4	\$4,184.0

Source: DOD's fiscal year 2001 President's budget submission.

In its January 2001 review, the Office of the Secretary of Defense (Comptroller) revised the estimates made in developing the President's budget for fiscal year 2001.² The Comptroller's review was based on information provided by the military services and defense agencies (such as the Defense Logistics Agency) and on its own assessment of what constituted legitimate contingency costs. Overall, the Comptroller's office initially concluded that (1) some costs had increased while others had decreased and that, on balance, there was sufficient funding for fiscal year 2001 and (2) \$104.2 million would remain available to fund fiscal year 2002 requirements.

²The President's budget is developed almost a year before the fiscal year in which it takes effect. We have previously reported that developing accurate budget estimates for contingency operations is difficult because DOD has to make judgments about a variety of factors, such as the size and composition of the military force to be used and because events may differ from the assumptions. (See *Contingency Operations: Defense Cost and Funding Issues* [GAO/NSIAD-96-121BR, Mar. 15, 1996]). The budget estimate, therefore, is a snapshot in time.

Among the services, the Comptroller's office estimated that the Air Force's cost requirements had increased by \$90 million while the Army's and Navy's cost requirements had decreased by \$52 million and \$107 million, respectively. The balance of the changes occurred in the defense agencies, which experienced a net decline in costs. Included in its revised estimate was a Comptroller's office adjustment to the Air Force's and Navy's estimates. The Comptroller's office disallowed \$41 million in the Air Force's costs in Southwest Asia because it concluded that these costs went beyond the critical tasks of the relocation of headquarters in Saudi Arabia and so were not eligible for contingency operation funding. Regarding the Navy, the Comptroller's office disallowed \$121 million in flying-hour costs because it concluded that the associated flying hours were performed as part of normal training levels. In response to appeals from the Air Force and Navy after the Comptroller's office completed its January 2001 review, the Deputy Secretary of Defense restored a large part of the fund reduction: the full \$41 million to the Air Force and \$63.2 million of the Navy's \$121 million in flying hour costs. The sum of these restored funds, which will be taken from the Transfer Fund, exactly equaled the \$104.2 million that the Comptroller's office previously estimated would remain available at the end of the fiscal year to fund fiscal year 2002 requirements.

DOD Does Not Need Supplemental Funding for Fiscal Year 2001 Contingency Costs

On the basis of more current data through June 2001, we updated the assessment of contingency operations' costs for fiscal year 2001, concluding that existing contingency funding was still sufficient to cover estimated costs and that some funds may now be available at the end of fiscal year 2001. In June 2001, the administration submitted a request for \$6.1 billion in supplemental funding for DOD for fiscal year 2001, which included \$32 million for the military personnel costs of increased Army reserve component participation in contingency operations. On the basis of our analysis, we concluded that while the Army's military personnel costs had increased, other contingency operations costs had decreased, and that there is no need for the \$32 million in supplemental funding for contingency operations in fiscal year 2001. The request for fiscal year 2001 supplemental funding has since been amended, eliminating the \$32 million.

Our assessment showed that the largest change since the Comptroller's office's January 2001 revised estimate occurred in the Army's costs, while the Navy and Air Force reported little or no net change in their cost estimates. We estimate that the Army's overall costs have declined by \$128 million—with higher military personnel costs more than offset by lower operation and maintenance costs. The Army increased its estimate

of military personnel costs by \$72 million because of a greater reliance on reserve units in Bosnia. This increase was more than offset by a \$200 million decline in the Army in Europe's estimated operation and maintenance costs for the Balkans. This amount included a \$138.5 million decline in Kosovo costs owing to a variety of management efficiencies, including reduced contract costs, airlift, and other transportation costs, and fewer soldiers and equipment. It also included a \$61.5 million net reduction in Bosnia costs owing to a reduction in the number of soldiers and the amount of equipment there and to management efficiencies.

There has been no net change in the Navy's estimated costs since the Comptroller's office's review. However, since it developed its input for the President's budget for fiscal year 2001, the cost per flying hour for a number of Navy aircraft has increased substantially. For example, the cost per flying hour for the F-14 aircraft rose 21 percent; for the F-18 aircraft, 7 percent; and for the EA-6B aircraft, 14 percent. Although the Navy increased its budget estimate to reflect those higher costs, as discussed earlier, the Comptroller's office disallowed a larger amount—\$121 million in flying-hour costs—because it concluded that rather than increasing funds for its primary program (its training program), the Navy instead used contingency flying hours to increase its primary program flying. According to the Navy, senior Navy leadership plans to address the overall issue of the adequacy of funds to support its flying-hour program by requesting additional funds for the program in the June 2001 request for supplemental appropriations for DOD. Consequently, the Navy does not plan to seek additional funds for its participation in contingency operations. Calculating contingency hours will no longer be an issue after fiscal year 2001 because, beginning in fiscal year 2002, the Navy will fund all flying hours in its overall flying-hour program; therefore, there will be no need to separate contingency flying hours.

We estimate that the Air Force's costs increased slightly—by \$7 million—from the Comptroller's office's January 2001 review on the basis of discussions with the Air Force commands in the United States, Europe, and the Pacific, and the Air Force's headquarters personnel.

On balance, we estimate that after adjusting for (1) the Army's cost increases and decreases, including the Army in Europe's \$200 million cost reduction, and (2) the Air Force's cost increase, there could be \$121 million left at the end of fiscal year 2001. That amount could be applied against funding requirements for contingency operations in fiscal year 2002. However, the Comptroller's office advised us that it plans to address the \$200 million in reduced costs for the Army in Europe by

seeking a rescission of some of these funds and reprogramming the balance. The supplemental request for fiscal year 2001 has been amended to include a request that the Congress rescind \$61 million in funds previously appropriated for contingency operations. DOD is taking action to reprogram the remaining \$139 million and proposes that it be used for noncontingency operations. The Comptroller's office also advised us that unless other savings are identified, the services would have to fund any increased costs within their existing budgets.

Cost Estimates for Fiscal Year 2002 Have Changed and a Key Decision Affecting Costs Is Pending

Since DOD developed its original budget estimate for contingency operations in fiscal year 2002, estimated costs have declined by several hundred million dollars. In June 2001 the administration submitted a revised fiscal year 2002 budget for DOD, which included \$4 billion for ongoing contingency operations in the Balkans and Southwest Asia. (See table 2.) This submission reflected a \$284 million decline in the Army's costs in the Balkans. The budget estimate may be further altered when the administration completes its Iraq policy review, which may affect the scope of operations in Southwest Asia.

Table 2: DOD's Estimated Overseas Contingency Costs, Fiscal Year 2002

Dollars in millions			
	Military personnel	Operation and maintenance	Total
Army	\$462.9	\$2,064.3	\$2,527.2
Navy	60.5	141.9	202.4
Marine Corps	6.2	4.6	10.8
Air Force	114.4	831.4	945.8
Other DOD and classified programs		340.9	340.9
Total	\$644.0	\$3,383.1	\$4,027.1

Source: DOD.

As shown in table 2, the bulk of the costs (84 percent) are for operation and maintenance, and the balance is for military personnel. By service, the Army has the bulk of the costs (63 percent), followed by the Air Force (23 percent). By operation, the bulk of the costs are in the Balkans (71 percent), and the balance is in Southwest Asia.

In April 2001, the Army in Europe provided us with its revised cost estimate, which indicates that its costs in the Balkans could decline by as much as \$284 million. It estimated that its share of the Army's costs in Bosnia, which are included in the budget estimate, could decline by as

much as \$171 million—from \$700 million to \$529 million. The decline is a result of a decision to reduce the amount of personnel and equipment in Bosnia. It is a net figure reflecting these declines and expected increases in other areas, including contractor costs. The Army in Europe also estimated that its share of the Army's costs in Kosovo, which are also included in the budget estimate, could decline by as much as \$113 million—from \$1.084 billion to \$971 million. The decline is a result of reductions in personnel and equipment and declines in other costs, including contractor costs and airlift. It is a net figure reflecting these declines and expected increases in other areas, including an increase in the number of smaller camps, referred to as "outposts."

Our initial draft of this report, developed before the administration submitted its revised DOD budget for fiscal year 2002, noted that the Army's cost estimate for operations in the Balkans in fiscal year 2002 had declined substantially. This led us to conclude that since DOD developed its original January 2001 budget estimate considerably less funding might be needed for fiscal year 2002. In the June 2001 revision to DOD's budget for contingency operations in fiscal year 2002, the administration reduced DOD's budget request by \$284 million to reflect the lower Army cost estimate for Balkan operations.

The administration is conducting an Iraq policy review, the outcome of which will affect DOD's costs in Southwest Asia in fiscal year 2002 and beyond. According to DOD officials, the review includes a reassessment of the level of operations involving Iraq. The review could result in a decision to change the level of air operations or keep them at their current level. Until that review is completed, which is scheduled for June 2001, future costs cannot be accurately estimated. Therefore, DOD's budget estimate involving Southwest Asia may need to be adjusted, depending on the outcome of the policy review.

Because Operations in Southwest Asia Will No Longer Be Funded as Contingency Operations, Some Safeguards May Be Needed

DOD is transferring the funding for operations in Southwest Asia to the services' individual appropriations accounts beginning in fiscal year 2002 rather than fund them through the Overseas Contingency Operations Transfer Fund. DOD has concluded that since operations in Southwest Asia have been ongoing for 10 years and there appears to be no plan to withdraw forces in the near term, the requirements there should no longer be funded from the contingency fund. We have identified both positive and negative ramifications of such a decision and some steps that the Congress may wish to consider that could mitigate the negative consequences.

Shifting funding for contingency operations to the services' individual appropriations accounts could provide an added incentive to better control costs. Currently, DOD seeks and the Congress provides funding through the Transfer Fund on the basis of the services' budget estimates and the Comptroller's office's review of those estimates. Funds appropriated to the Transfer Fund are solely for the support of contingency operations. We are currently examining how contingency funds are spent and so are not in a position at this time to conclude whether funds are being spent in an economical and efficient manner. However, we believe that there is little financial incentive for the services to minimize costs under the current system because they do not have to weigh funding for contingency operations against competing budgetary priorities, since contingency operations are funded separately.

But there are potentially negative consequences associated with the proposed shift, which involve the visibility of funds. Most contingency costs are funded through the operation and maintenance account. Funds appropriated to the operation and maintenance account of each of the services and other DOD components can be used for a wide variety of purposes, including training, base operations, and real property maintenance. In committee reports that accompany appropriations legislation for DOD, the Congress provides DOD with guidance on how the funds are to be spent. However, we have previously reported that billions of dollars in funds move within the services' operation and maintenance accounts, as the services try to balance competing budgetary needs. For example, we reported in February 2000 that from fiscal year 1994 through fiscal 1998, DOD changed funding amounts for 245 subactivities within the services' operation and maintenance accounts by almost \$43 billion

compared with the amounts the Congress initially designated for them.³ These changes involved both increases and decreases in the amounts designated by the Congress. Once funds for operations in Southwest Asia are appropriated directly to the services' appropriation accounts, the visibility of such movements of funds as they pertain to operations in Southwest Asia may not be clear.

Visibility over the cost of operations in Southwest Asia could also be lost as a result of the proposed funding shift. In accordance with Volume 12, Chapter 23 of DOD Financial Management Regulations, the cost of the participation in contingency operations is reported monthly. This reporting provides important visibility on the level of resources needed to sustain operations. The reporting also provides insight into how the funds are spent because reported costs are placed in categories, such as operation tempo, airlift, temporary duty travel, and facilities and base support. As discussed earlier, DOD has reported that its costs for Southwest Asia totaled \$7.1 billion from 1991 through September 2000. It is unclear as to whether cost reporting for Southwest Asia will continue once it is no longer considered a contingency operation for funding purposes.

Conclusions

The \$32 million in supplemental funding for fiscal year 2001 requested for the Army's military personnel costs in support of contingency operations is unnecessary. The administration has since amended its request for supplemental funding to withdraw the request for this \$32 million. The budget outlook for contingency operations for fiscal year 2002 may be affected by the results of the administration's Iraq policy review, which could result in a decision to change the level of air operations or keep them at their current level. The shift of funding from the Overseas Contingency Operations Transfer Fund to the services' direct appropriations could result in a significant loss of visibility over both costs and the use of funds for operations in Southwest Asia.

³See *Defense Budget: DOD Should Further Improve Visibility and Accountability of O&M Fund Movements* (GAO/NSIAD-00-18, Feb. 9, 2000.) We use the term "congressionally designated" or "congressional designation" to refer to amounts set forth in an appropriation act's conference report.

Matters for Congressional Consideration

Regarding supplemental funding for fiscal year 2001, the Congress may wish to consider the \$32 million that was included in the supplemental funding request for increased Army military personnel contingency operations costs as withdrawn, on the basis of the amended supplemental request.

The Congress may also wish to consider the following two actions in appropriating funds for contingency operations for fiscal year 2002:

- Regarding the fiscal year 2002 budget for Southwest Asia operations, upon completion of the Iraq policy review the Congress may wish to have DOD provide an updated budget estimate reflecting the results of the policy review.
- Regarding maintaining visibility over funding for operations in Southwest Asia, the Congress may wish to direct that (1) appropriate committees be provided with written notification if funds identified for operations in Southwest Asia are obligated for any other purposes and (2) DOD continue to report monthly on the costs of its operations in Southwest Asia.

Agency Comments

In oral comments on a draft of this report, the Office of the Under Secretary of Defense (Comptroller) and service budget officials responsible for contingency operations costs concurred with the contents of this report. The Comptroller's office advised us that DOD agrees with the basic conclusions and findings addressed in the report.

Scope and Methodology

To identify and assess the contingency cost information contained in this report, we conducted work at the Office of the Secretary of Defense; the Departments of the Army, Navy, and Air Force; U.S. Army Forces Command; U.S. Army Europe; 1st Infantry Division, Wurzburg, Germany; 3rd Infantry Division, Fort Stewart, Georgia; U.S. Navy Pacific Fleet; Naval Air Forces Pacific; U.S. Pacific Command; U.S. Army Pacific; Marine Forces Pacific; Air Force Air Combat Command; and the U.S. Special Operations Command. At these locations, we reviewed contingency operations cost reports; DOD's budget documents for fiscal years 2001 and 2002; and documents that supported contingency-related costs. We did not verify the data used by the Defense Finance and Accounting Service to create the contingency operations cost reports.

We performed our work from January through June 2001 in accordance with generally accepted government auditing standards.

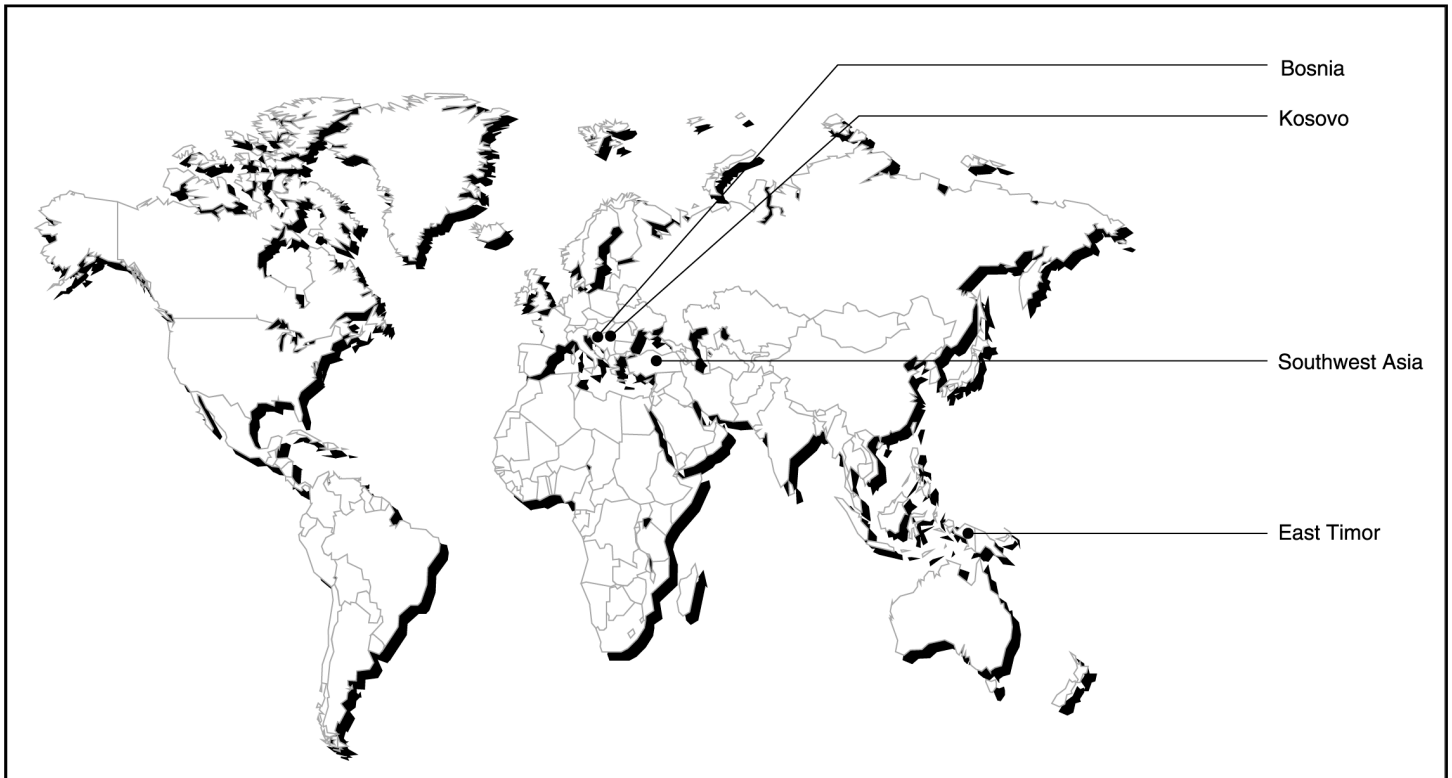
We are sending copies of this report to the Chairman and Ranking Minority Member, Subcommittee on Defense, House Committee on Appropriations; the Secretary of Defense; the Under Secretary of Defense (Comptroller); and the Director, Office of Management and Budget. Copies of this report will also be made available to others upon request.

If you have any questions regarding this report, please call me on (757) 552-8100. Principal contributors to this report were Steve Sternlieb, Ray S. Carroll, Lester Ward, and Laura Talbott.

A handwritten signature in black ink that reads "Neal P. Curtin". The signature is written in a cursive style with a large initial "N" and "C".

Neal P. Curtin, Director
Defense Capabilities and Management

Appendix I: Location of Major Contingency Operations



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