
May 2004

FUTURE YEARS DEFENSE PROGRAM

Actions Needed to Improve Transparency of DOD's Projected Resource Needs





Highlights of GAO-04-514, a report to Congressional Committees

Why GAO Did This Study

Congress needs the best available data about DOD's resource trade-offs between the dual priorities of transformation and fighting the global war on terrorism. To help shape its priorities, in 2001 DOD developed a capabilities-based approach focused on how future adversaries might fight, and a risk management framework to ensure that current defense needs are balanced against future requirements. Because the Future Years Defense Program (FYDP) is DOD's centralized report providing DOD and Congress data on current and planned resource allocations, GAO assessed the extent to which the FYDP provides Congress visibility over (1) projected defense spending and (2) implementation of DOD's capabilities-based defense strategy and risk management framework.

What GAO Recommends

GAO makes recommendations to provide Congress more data in fiscal year 2005 and beyond on known or likely costs of operations, and to enhance the FYDP as a tool in the new strategic environment. In comments on a draft report, DOD stated it already provides reliable information on known costs of ongoing operations to Congress as soon as it is available, and did not concur with the proposal to enhance the FYDP. GAO believes its recommendations offer practical solutions that would provide better information for congressional decision-makers to use during budget deliberations.

www.gao.gov/cgi-bin/getrpt?GAO-04-514.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Sharon Pickup at (202) 512-9619 or pickups@gao.gov.

May 2004

FUTURE YEARS DEFENSE PROGRAM

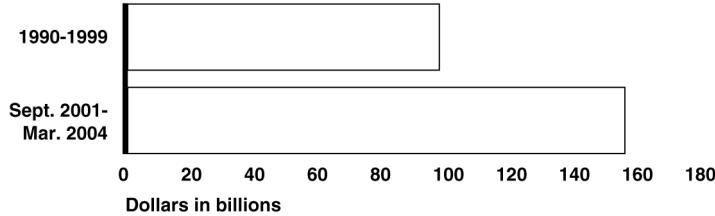
Actions Needed to Improve Transparency of DOD's Projected Resource Needs

What GAO Found

The FYDP provides Congress with mixed visibility over DOD's projected spending for the current budget year and at least four succeeding years. On the one hand, it provides visibility over many programs that can be aggregated so decision makers can see DOD's broad funding priorities by showing shifts in appropriation categories. On the other hand, in some areas DOD likely understates the future costs of programs in the FYDP because it has historically employed overly optimistic planning assumptions in its budget formulations. As such, DOD has too many programs for the available dollars, which often leads to program instability, costly program stretch-outs, and delayed program termination decisions. Also, the FYDP does not reflect costs of ongoing operations funded through supplemental appropriations. Since September 2001, DOD has received \$158 billion in supplemental appropriations to support the global war on terrorism, and DOD expects to request another supplemental in January 2005 to cover operations in Iraq and Afghanistan. While DOD officials stated they are uncertain of the amount of the request, some requirements they intend to fund with the supplemental appropriation have already been identified, such as temporarily increasing the Army's force structure. Defining costs during ongoing operations is challenging and supplemental appropriations are sometimes necessary; however, not considering the known or likely costs of ongoing operations expected to continue into the new fiscal year as part of larger budget deliberations will preclude DOD and congressional decision makers from fully examining the budget implications of the global war on terrorism.

DOD's Emergency Supplemental Appropriations for 2004

Date



Source: GAO analysis of appropriations data.

The FYDP provides Congress limited visibility over important DOD initiatives. While DOD is considering how to link resources to defense capabilities and the risk management framework, it does not have specific plans to make these linkages in the FYDP, in part because the initiatives have not been fully defined or implemented. Because the FYDP lacks these linkages, decision makers cannot use it to determine how a proposed increase in capability would affect the risk management framework, which balances dimensions of risk, such as near term operational risk versus risks associated with mid- to long-term military challenges.

Contents

Letter		1
Results in Brief		2
Background		4
FYDP Provides Congress with Mixed Visibility of Projected DOD Spending		6
The FYDP Has Not Been Linked to Important QDR Initiatives, Thereby Limiting Congressional Visibility		14
Conclusions		17
Recommendations for Executive Action		18
Agency Comments and Our Evaluation		18
Appendix I	Scope and Methodology	23
Appendix II	Comparison of DOD's 2003 and 2004 FYDPs by Primary Appropriation Category	25
Appendix III	Comments from the Department of Defense	27
Appendix IV	GAO Contact and Staff Acknowledgments	34
Table	Table 1: Emergency Supplemental Appropriations for DOD since September 11, 2001	13
Figure	Figure 1: Total Dollar Changes in Appropriation Categories between the 2003 and 2004 FYDPs for Fiscal Years 2004-2007	8

Abbreviations

CBO	Congressional Budget Office
DOD	Department of Defense
FYDP	Future Years Defense Program
O&M	operation and maintenance
QDR	Quadrennial Defense Review
RDT&E	research, development, test and evaluation

This is a work of the U.S. government and is not subject to copyright protection in the United States. It may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.



United States General Accounting Office
Washington, DC 20548

May 7, 2004

Congressional Committees

In light of the Department of Defense's (DOD) challenge of transforming its forces for the future while simultaneously fighting the global war on terrorism, decision makers need to have the best data available about resources¹ to make trade-offs among these priorities. The Future Years Defense Program (FYDP), a DOD centralized report consisting of thousands of program elements, provides information on DOD's current and planned outyear budget requests and is one of the principal tools available to help inform DOD and Congress about resource data relating to these challenging trade-offs. In 2001, to help shape its priorities, DOD developed a new capabilities-based defense strategy focused on "how" future adversaries might fight, rather than specifically on "whom" they might be. Realizing that it could not achieve the goals of the new strategy without a new approach to managing different kinds of defense risks, such as near term operational risk, DOD identified an associated risk management framework to ensure that current defense needs are balanced against future requirements. These two concepts—the capabilities-based approach and the risk management framework—are key tenets in DOD's 2001 Quadrennial Defense Review (QDR).² Furthermore, DOD has emphasized the need to link resources to capabilities and the risk management framework.

We believe this report on the FYDP will be useful for your committees' oversight of DOD's future resource allocations between the dual priorities of transformation and fighting the global war on terrorism. We examined the utility of the FYDP as one of the principal tools providing DOD and Congress data on current and planned resource allocations. Specifically we assessed the extent to which the FYDP provides Congress visibility over (1) projected defense spending and (2) the implementation of DOD's

¹ Throughout this report, the term "resources" refers to forces, manpower, and funding.

² Every 4 years, as directed by 10 U.S.C. §118 (2004), DOD conducts a comprehensive examination of the national defense strategy, force structure, force modernization plans, infrastructure budget plan, and other elements of the defense program and establishes a defense program for the next 20 years.

capabilities-based approach and risk management framework outlined in the 2001 QDR.

In conducting our review, we determined that the automated FYDP data were sufficiently reliable for meeting our objectives. To assess congressional visibility of projected defense spending, we compared DOD reports and related 2003 and 2004 budget submissions, analyzed 2003 and 2004 FYDP resource data, examined related reports, reviewed documents and officials' statements related to supplemental appropriations, and interviewed appropriate DOD program and budget officials. To assess DOD's implementation of its capabilities-based approach and risk management framework, we interviewed appropriate DOD officials, and officials from the Institute for Defense Analyses — the organization currently under contract to make improvements to the FYDP; examined various DOD planning and budget documents; and analyzed the FYDP structure for the feasibility of including links to defense capabilities and the risk management framework. We conducted our work between June 2003 and February 2004 in accordance with generally accepted government auditing standards. See appendix I for a more complete description of our scope and methodology.

Results in Brief

The FYDP provides Congress with mixed visibility over DOD's projected spending. On the one hand, it provides visibility over many programs that can be aggregated so that decision makers can see DOD's broad funding priorities by showing shifts between and within appropriation categories. On the other hand, the FYDP provides less visibility over some important funding categories and may underestimate some costs. For example, the FYDP does not provide visibility over costs for some high priority items—such as civilian personnel, spare parts, and information technology—because, by design, these items are embedded in individual programs. Furthermore, as prior GAO reports have shown, DOD limits visibility in some areas because it likely understates future costs by employing overly optimistic planning assumptions in its budget formulations for programs, such as the long-term costs for weapon systems. Overly optimistic planning assumptions for programs not only limit visibility; they may have adverse implications, such as program termination, for the programs beyond the FYDP years.

In addition, DOD does not include the costs of ongoing operations funded through supplemental appropriations, such as the global war on terrorism. Since September 11, 2001, DOD has received \$158 billion in supplemental appropriations—an amount that exceeds the \$99 billion DOD received in

supplemental appropriations throughout all of the 1990s and is more than DOD's fiscal year 2004 request for its entire Operation and Maintenance account.³ Further, the administration expects to request another supplemental in January 2005 to cover costs of operations in Iraq and Afghanistan. While DOD officials have stated their uncertainty about how much will be requested, some requirements they intend to fund with the supplemental appropriation have already been identified, such as the cost of increased Army force structure. We recognize that defining costs during ongoing operations is challenging and supplemental appropriations are sometimes necessary to cover these costs. Nonetheless, not considering the expected costs of ongoing operations as part of larger budget deliberations will mean that neither the administration nor congressional decision makers will have the opportunity to fully examine the budget implications of the global war on terrorism. Therefore, we are recommending that DOD provide information on known or likely costs for ongoing operations to Congress for consideration during its fiscal year 2005 and future budget deliberations.

The FYDP's current usefulness is limited in providing Congress visibility over the implementation of the capabilities-based defense strategy and associated risk management framework, important QDR initiatives. The Major Force Programs, initially developed as the fundamental framework of the FYDP, remain virtually unchanged and are not representative of DOD's capabilities-based approach. Because the FYDP has a flexible structure, DOD has modified it over time to capture the resources associated with special areas of interest, such as space activities. However, DOD has not established a link in the FYDP to either defense capabilities, the basis of its new approach to the defense strategy, or the risk management framework, developed to ensure that current defense needs are balanced against future requirements. Moreover, while DOD is considering how to link resources to these initiatives, it does not have specific plans to make these linkages in the FYDP, in part because the initiatives have not been fully developed. DOD is currently undergoing the complex process of fully defining the capabilities it needs to meet the defense strategy. Although the risk management framework is better defined, DOD has not completed its process of linking it to resources, and this process does not include creating a link in the FYDP. Therefore, although DOD makes funding decisions that affect defense capabilities

³ Unless otherwise stated, the years and dollars shown in this report are on a fiscal year basis and in constant fiscal year 2004 dollars.

and the risk management framework, the effects on capabilities and risk are not clearly identifiable in the FYDP. If they were, both DOD and congressional decision makers would have greater ability to assess how a proposed increase or decrease in capability would relate to the funds and other resources needed and how it would affect the risk management framework. Therefore, we are recommending that DOD align the program elements in the FYDP to defense capabilities and the risk management framework and include this alignment with the FYDP provided to Congress.

In written comments on a draft of this report, DOD stated that it already provides reliable information on the known costs of ongoing operations to Congress as soon as it is available and does not concur with our proposals to enhance the FYDP as a tool in the new strategic environment. We maintain our view that our recommendations offer practical solutions that would provide better information for congressional decision makers to use during budget deliberations and for improving congressional visibility over DOD's allocation of resources.

Background

In 1962, DOD instituted the Planning, Programming, and Budgeting System to establish near-term projections in defense spending. This system was intended to provide the necessary data to assist defense decision makers in making trade-offs among potential alternatives, thereby resulting in the best possible mix of forces, equipment, and support to accomplish DOD's mission. The military services and other DOD components developed the detailed data projections for the budget year in which funds were being requested and at least the 4 succeeding years and provided them to the Office of the Secretary of Defense. The resulting projections were compiled and recorded in a 5-year plan. In 1987, Congress directed the Secretary of Defense to submit the five-year defense program (currently referred to as the future years defense program, or FYDP) used by the Secretary in formulating the estimated expenditures and proposed appropriations included in the President's annual budget to support DOD

programs, projects and activities.⁴ The FYDP, which is submitted annually to Congress, is considered the official report that fulfills this legislative requirement.

The Office of Program Analysis and Evaluation has responsibility for the assembly and distribution of the FYDP. The Office of the Under Secretary of Defense (Comptroller) has responsibility for the annual budget justification material that is presented to Congress. These offices work collaboratively to ensure that the data presented in the budget justification material and the FYDP are equivalent at the appropriation account level.

The FYDP provides DOD and Congress a tool for looking at future funding needs beyond immediate budget priorities and can be considered a long-term capital plan. As GAO has previously reported, leading practices in capital decision making include developing a long-term capital plan to guide implementation of organizational goals and objectives and help decision makers establish priorities over the long term.⁵ In 2002, Congress directed the Department of Homeland Security to begin developing a future budget plan modeled after DOD's FYDP.⁶

In the 2001 QDR Report, DOD established a new defense strategy and shifted the basis of defense planning from a "threat-based" model to a "capabilities-based" model. According to the QDR report, the capabilities-based model is intended to focus more on how an adversary might fight rather than specifically on whom the adversary might be or where a war might occur. The report further states that in adopting a capabilities-based approach, the United States must identify the capabilities required to deter

⁴ National Defense Authorization Act for Fiscal Years 1988 and 1989 (Pub. L. No. 100-180, Sec. 1203; Dec. 4, 1987). The FYDP reporting requirement is currently codified at 10 U.S.C. § 221 (2004) and it states that any such future-years defense program shall cover the fiscal year with respect to which the budget is submitted and at least the 4 succeeding fiscal years. The FYDP must also include the estimated expenditures and the proposed appropriations, for each fiscal year of the period covered by that program, for the procurement of equipment and for military construction for each of the reserve components of the armed forces. 10 U.S.C. § 10543 (2004).

⁵ U.S. General Accounting Office, *Executive Guide: Leading Practices in Capital Decision-Making*, GAO/AIMD-99-32 (Washington, D.C.: Dec. 1998). GAO reported that leading organizations it studied prepare long-term capital plans to document specific planned projects, plan for resource use over the long term, and establish priorities for implementation. These capital plans usually cover a 5-, 6-, or 10-year period and are updated either annually or biennially.

⁶ Homeland Security Act of 2002 (Pub. L. No. 107-296, Sec. 874, Nov. 25, 2002).

and defeat adversaries, maintain its military advantage, and transform its forces and institutions.

The QDR report also outlined a new risk management framework to use in considering trade-offs among defense objectives and resource constraints. This framework consists of four dimensions of risk:

- **Force management**—the ability to recruit, retain, train, and equip sufficient numbers of quality personnel and sustain the readiness of the force while accomplishing its many operational tasks;
- **Operational**—the ability to achieve military objectives in a near-term conflict or other contingency;
- **Future challenges**—the ability to invest in new capabilities and develop new operational concepts needed to dissuade or defeat mid- to long-term military challenges; and
- **Institutional**—the ability to develop management practices and controls that use resources efficiently and promote the effective operation of the Defense establishment.

These risk areas will form the basis for DOD's annual performance goals and for tracking associated performance results. Moreover, the QDR states that an assessment of the capabilities needed to counter both current and future threats must be included in DOD's approach to assessing and mitigating risk.

FYDP Provides Congress with Mixed Visibility of Projected DOD Spending

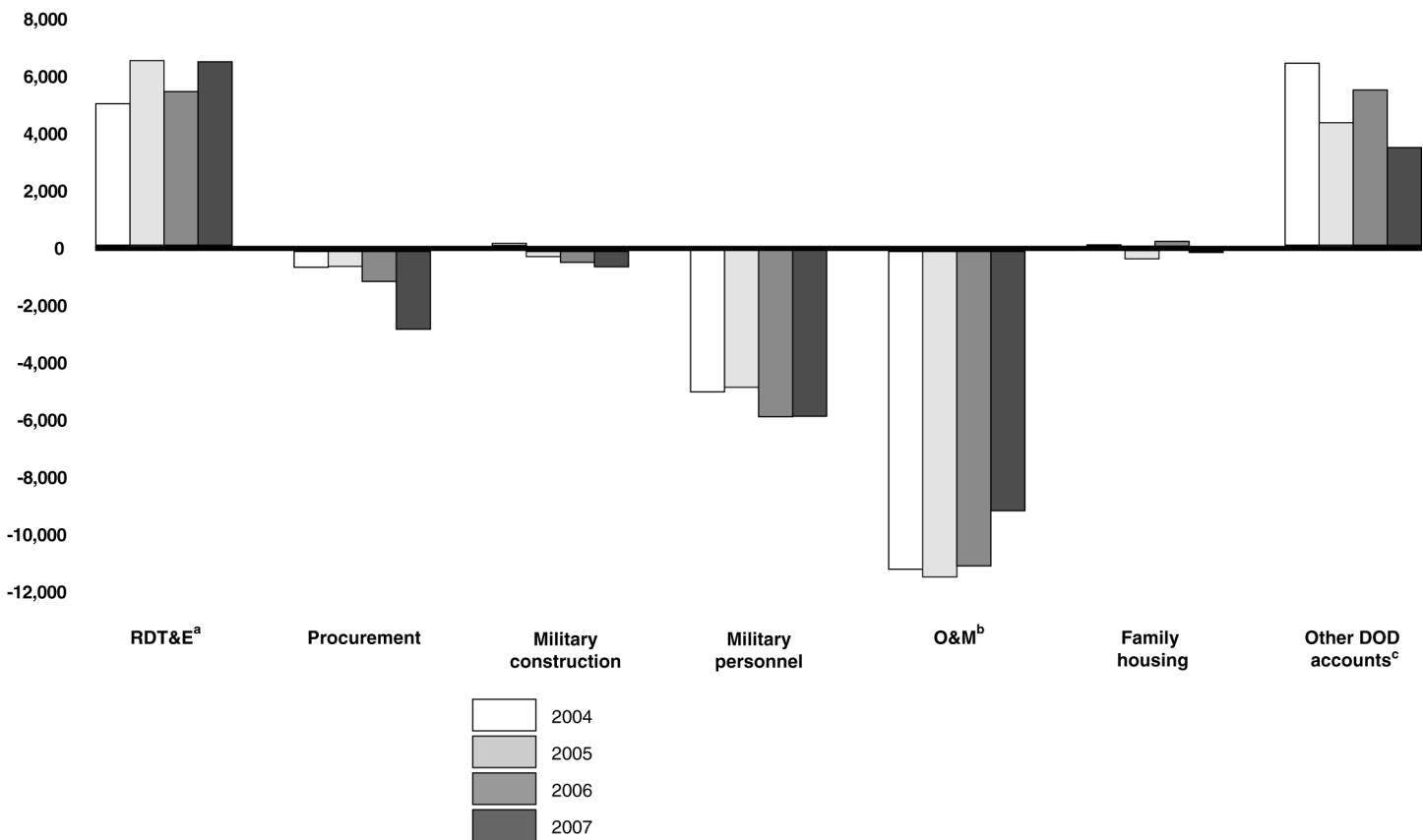
The FYDP provides Congress visibility of broad DOD funding shifts and priorities regarding thousands of programs that have been aggregated, or grouped, by appropriation category. For example, we noted that DOD increases its Research, Development, Test and Evaluation (RDT&E) account category and decreases other account categories in the 2004 FYDP. Other funding shifts/priorities are less visible because the FYDP report, organized by program, cannot display some specific costs that are important to decision makers, such as funding for DOD's civilian workforce. Moreover, the FYDP is a reflection of the limitations of DOD's budget preparation process. For example, as we have reported in the past, the FYDP reflects DOD's overly optimistic estimations of future program costs that often lead to costs being understated. Such understatements may have implications for many programs beyond the years covered by the FYDP. Finally, the costs of ongoing operations in Iraq and Afghanistan, which have been funded through supplemental appropriations, are not projected in the FYDP thereby limiting the visibility over these funds. The administration is expected to request additional supplemental funds in

calendar year 2005 according to DOD officials. Although some costs are difficult to predict, DOD expects costs to become more predictable later this year. However, some requirements it plans to fund with the supplemental appropriation have already been identified.

Some Funding Shifts/Priorities Are Visible at the Appropriation Category Level in the FYDP; Others Are Less Visible

The FYDP was designed to provide resource information at the program level that could be aggregated a variety of ways including up to the appropriation category level. For individual programs, this means that decision makers have visibility over planned funding for 4 or 5 years beyond the current budget year. Similarly, the programs can be aggregated in a variety of ways to analyze future funding trends. For example, our comparison of the 2003 FYDP to the 2004 FYDP provides visibility of funding shifts that DOD made at the appropriation category level, specifically showing that over the common years of both FYDPs, DOD plans to increase funding in its RDT&E appropriation category, while in most years decreasing funds to Procurement, Military Construction, Military Personnel, and Operation and Maintenance. According to DOD officials, this shift toward RDT&E reflects DOD's emphasis on transforming military forces. Since the FYDP does not clearly identify those programs DOD considers transformational, we could not validate this claim. Figure 1 shows the changes made between the 2003 and 2004 FYDPs to the department's appropriation categories for the common 4-year period, 2004–2007. Appendix II provides a more detailed table.

Figure 1: Total Dollar Changes in Appropriation Categories between the 2003 and 2004 FYDPs for Fiscal Years 2004-2007



Source: GAO analysis of DOD data.

^aRDT&E = research, development, test and evaluation

^bO&M = operation and maintenance

^cThe “Other DOD accounts” category includes funding for the Other DOD Programs appropriation category (chemical agents and munitions destruction, the defense health program, drug interdiction and counter-drug activities, and the Office of the Inspector General), as well as for the two appropriation categories Revolving Management Funds and Undistributed Contingencies.

Compared to the 2003 FYDP, funding in the Operation and Maintenance appropriation category in the 2004 FYDP was reduced by at least \$9 billion per year from 2004 through 2007 for a total of \$42 billion over that period. About \$41 billion of that decrease is accounted for by the elimination of the Defense Emergency Response Fund, which had projected over \$10 billion in funding each year for 2004 through 2007 in the 2003 FYDP, but had no funding in the 2004 FYDP for those years. Over those same years, the “Other DOD accounts” category increased by a total of \$19 billion. The increase in these categories was mainly fueled by a

\$22 billion increase in the Defense Health Program, which was offset somewhat by a decrease in Revolving Management Funds.⁷

Although DOD's policy priorities can be discerned at the appropriation level, some important funding categories cannot be identified because program elements, the most basic components of the report, are intended to capture the total cost of the program, as opposed to individual costs that comprise the program. For example, funding for spare parts, civilian personnel, and information technology are included in funding for individual programs and cannot be readily extracted from them. Congress has expressed interest in all of these funding categories. We note that DOD officials stated that these funding categories are delineated in other reports to Congress.

Program elements that encompass multiple systems, such as the Army's Future Combat Systems and DOD's Ballistic Missile Defense System, could also limit visibility over funding trends and trade-offs in the FYDP. For example, in its 2004 budget justification material, the administration requested funding for the Army's Future Combat Systems—often referred to as a “system of systems”—under a single program element.⁸ In the National Defense Authorization Act for Fiscal Year 2004, Congress rejected the single program element and instead required the Secretary of Defense to break Future Combat Systems into three program elements.⁹ In the conference report accompanying the bill, the conferees noted that “the high cost and high risk [of the Future Combat System] require congressional oversight which can be better accomplished through the application of separate and distinct program elements for the [Future Combat System].”¹⁰ In another example, DOD had proposed that Congress repeal its requirement for specifying Ballistic Missile Defense System program elements. According to DOD's legislative proposal, this would coincide with the Secretary of Defense's goal to establish a single program

⁷ Revolving Management Funds include accounts such as DOD's Working Capital Funds and National Defense Sealift Fund. These funds are used to conduct continuing cycles of business-like activity, in which the fund charges for the sale of products or services and uses the proceeds to finance its spending.

⁸ The Army plans to develop a family of 18 systems under the Future Combat Systems program.

⁹ Section 214(b), Pub.L. No.108-136 (Nov. 24, 2003).

¹⁰ Conference Report (H.R. Conf. Rep. No. 108-354, at 611 (2003)), accompanying H.R. 1588 (Pub.L. No. 108-136).

that allows allocating and re-allocating of funds among competing priorities within the program. While Congress provided the administration flexibility for specifying program elements related to Ballistic Missile Defense, it nonetheless noted that budget reporting for Ballistic Missile Defense under one program element would be inappropriate.¹¹

FYDP Limits Visibility of Some Future Costs through Overly Optimistic Planning Assumptions

Since the mid-1980s, we have reported a limitation in DOD's budget formulation—the use of overly optimistic planning assumptions. Such overly optimistic assumptions limit the visibility of costs projected throughout the FYDP period and beyond. As a result, DOD has too many programs for the available dollars, which often leads to program instability, costly program stretch-outs, and program termination. For example, in January 2003, we reported that the estimated cost of developing eight major weapon systems had increased from about \$47 billion in fiscal year 1998 to about \$72 billion by fiscal year 2003.¹² We currently expect DOD's funding needs in some areas to be higher than the estimates in the FYDP. The following are some examples of anticipated cost increases based on recent reports where we made recommendations to improve the management and costs estimates of these programs.

- As we reported in April 2003, cost increases have been a factor in the Air Force substantially decreasing the number of F/A-22 Raptors to be purchased—from 648 to 276.¹³ Moreover, current budget estimates, which exceed mandated cost limitations, are dependent on billions of dollars of cost offset initiatives which, if not achieved as planned, will further increase program costs. In addition, GAO considers continued acquisition of this aircraft at increasing annual rates before adequate testing is completed to be a high-risk strategy that could further increase production costs.
- DOD has not required the services to set aside funds to support the procurement and maintenance of elements of the Ballistic Missile Defense System. Management of this “system of systems” was shifted from the services to the Department’s Missile Defense Agency in January 2002, but

¹¹ Conference Report (H.R. Conf. Rep. No. 108-354, at 613 (2003)), accompanying H.R. 1588 (Pub.L. No. 108-136).

¹² U.S. General Accounting Office, *Major Management Challenges and Program Risks: Department of Defense*, [GAO-03-98](#) (Washington, D.C.: Jan. 2003). These amounts are in constant fiscal year 2003 dollars.

¹³ U.S. General Accounting Office, *Tactical Aircraft: Status of the F/A-22 Program*, [GAO-03-603T](#), (Washington, D.C.: Apr. 2, 2003).

procurement and maintenance costs will be borne by the services as elements of the system demonstrate sufficient maturity to enter into full-rate production. In April 2003, we concluded that because DOD had not yet set aside funds to cover its long-term costs, the department could find that it cannot afford to procure and maintain that system unless it reduces or eliminates its investment in other important weapons systems.¹⁴ We recommended that the Secretary of Defense explore the option of requiring the services to set aside funds for this purpose in the FYDP. DOD concurred with this recommendation, noting that doing so would not only promote the stability of the overall defense budget but would also significantly improve the likelihood that an element or component would actually be fielded.

- Since its inception in fiscal year 1986, DOD's \$24 billion chemical demilitarization program (a 2001 estimate) has been plagued by frequent schedule delays, cost overruns, and continuing management problems. In October 2003, we testified that program officials had raised preliminary total program cost estimates by \$1.4 billion and that other factors, yet to be considered, could raise these estimates even more.¹⁵

In written comments on a draft of this report, DOD strongly objected to our conclusion that DOD has historically employed overly optimistic assumptions and noted that these statements do not reflect recent efforts to correct this problem. In August 2001, DOD established guidance that all major acquisition programs should be funded to the Cost Analysis Improvement Group estimates, which, according to DOD, have historically been far more accurate than Service estimates. However, as DOD acknowledges in its written comments, there is currently no auditable data available to document the effects of this guidance; therefore, we could not analyze this claim. Further, GAO reports issued after a draft of this report was sent to DOD – such as our March 2004 report on the Air Force's F/A-22 program and our April 2004 testimony on DOD's Chemical Demilitarization program – continue to raise questions about DOD's planning assumptions.¹⁶ For example, in our F/A-22 report, we continued

¹⁴ U.S. General Accounting Office, *Missile Defense: Knowledge-Based Practices Are Being Adopted, but Risks Remain*, GAO-03-441 (Washington, D.C.: Apr. 30, 2003).

¹⁵ U.S. General Accounting Office, *Chemical Weapons: Better Management Tools Needed to Guide DOD's Stockpile Destruction Program*, GAO-04-221T (Washington, D.C.: Oct. 30, 2003). These amounts are in then-year dollars.

¹⁶ U. S. General Accounting Office, *Tactical Aircraft: Changing Conditions Drive Need for New F/A-22 Business Case*, GAO-04-391 (Washington, D.C.: Mar. 15, 2004) and *Chemical Weapons: Destruction Schedule Delays and Cost Growth Continue to Challenge Program Management*, GAO-04-634T (Washington, D.C.: Apr. 1, 2004).

to observe that additional increases in development costs for the F/A-22 are likely and in our report on DOD's Chemical Demilitarization Program, we observed that the program continues to fall behind schedule milestones.

Some of the examples listed above will have budgetary impacts beyond the 2009 end date of the 2004 FYDP. As the Congressional Budget Office (CBO) reported in January 2003, "programs to develop weapon systems often run for a decade or more before those systems are fielded, and other policy decisions have long-term implications; thus, decisions made today can influence the size and composition of the nation's armed forces for many years to come."¹⁷ In its February 2004 update to that report, CBO projected that if the programs represented in the 2004 FYDP were carried out as currently envisioned by DOD, demand for resources would grow from the current projection in 2009 of \$439 billion to an average demand for resources of \$458 billion a year between 2010 and 2022.¹⁸ When CBO assumed that costs for weapons programs and certain other activities would continue to grow as they have historically rather than as DOD currently projects, CBO's projections increased to an average of \$473 billion a year through 2009 and an average of \$533 billion between 2010 and 2022.

FYDP Does Not Provide Visibility Over Future Costs of Operations Funded through Supplemental Appropriations

The FYDP does not include future costs for ongoing operations when these operations are funded through supplemental appropriations. Since the attacks of September 11, 2001, DOD has received supplemental appropriations totaling \$158 billion in constant 2004 dollars to support operations in Iraq, Afghanistan, and elsewhere, as well as to initially recover and respond to the terrorist attacks. This amount exceeds the \$99 billion DOD received in supplemental appropriations throughout all of the 1990s and is more than what DOD requested for its entire Operation and Maintenance account for fiscal year 2004. Table 1 summarizes these supplemental appropriations.

¹⁷ Congressional Budget Office, *The Long-Term Implications of Current Defense Plans*, (www.cbo.gov, January 2003).

¹⁸ Congressional Budget Office, *The Long-Term Implications of Current Defense Plans: Detailed Update for Fiscal Year 2004*, (www.cbo.gov, February 2004).

Table 1: Emergency Supplemental Appropriations for DOD since September 11, 2001

2004 dollars in billions		
Fiscal year	Public law	Supplemental amount appropriated to DOD
2004	Pub. L. No. 108-106 (Nov. 6, 2003). Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, 2004	\$65.2
2003	Pub. L. No. 108-87 (Sep. 30, 2003). Department of Defense Appropriations Act, 2004: (Rescinded funds appropriated in Pub. L. No. 108-11 (Apr. 16, 2003))	-3.6
2003	Pub. L. No. 108-11 (Apr. 16, 2003). Emergency Wartime Supplemental Appropriations Act, April 2003	64.0
2002	Pub. L. No. 107-206 (Aug. 2, 2002). 2002 Supplemental Appropriations Act for Further Recovery From Response to Terrorist Attacks on the United States	14.0
2001/2002	Pub. L. No. 107-38 (Sep. 18, 2001). 2001 Emergency Supplemental Appropriation For Recovery From And Response to Terrorist Attacks on the United States and Pub. L. No. 107-117 (Jan. 10, 2002). Department of Defense and Emergency Supplemental Appropriations for Recovery from Response to Terrorist Attacks on the United States Act, 2002	18.3
Total		\$158.0

Source: GAO analysis of supplemental appropriations.

Note: Numbers do not add due to rounding.

In presentations related to the 2005 President's budget submitted to Congress in early February 2004, DOD officials reported that the budget does not include funding for ongoing operations in Iraq and Afghanistan, and they expect another supplemental will be needed in January 2005 to finance incremental costs for these operations. Senior DOD officials indicated that operations in Iraq and Afghanistan will continue into fiscal year 2005, but the requirements and costs of these continued operations are difficult to estimate because of uncertainties surrounding the political situations in these regions. However, they noted that funding estimates will likely become clearer over the course of the year. For example, the Under Secretary of Defense (Comptroller) stated that by July 2004, the operations in Iraq and Afghanistan may be better defined and that having time to analyze expenditures will help in making more realistic projections. In addition, Service and DOD officials have already identified some requirements that have associated costs. For example, the Army has

been authorized to temporarily increase its end strength by 30,000 soldiers. In briefings on the 2005 budget request, DOD and Army officials stated that they intended to partially fund this additional end strength with the supplemental appropriation anticipated for 2005.

DOD, with congressional approval, has used different approaches in the past to fund operations. For example, in the former Yugoslavia, DOD funded operations begun in fiscal year 1996 through a combination of transfers between DOD accounts, absorbing costs within accounts, and supplemental appropriations. However, in 1997, Congress established the Overseas Contingency Operations Transfer Fund, which provided funding to DOD rather than directly to the individual military services, and allowed DOD to manage the funding of contingency operations among the military services more effectively and with some flexibility.¹⁹ In 2002, DOD determined that funding for operations in the former Yugoslavia were sufficiently stable to be included directly in appropriation account requests. GAO observed in a 1994 report that if an operation continued into a new fiscal year, it would seem appropriate that DOD would build the expected costs of that operation into its budget and allow Congress to expressly authorize and appropriate funds for its continuation.²⁰ We continue to hold this view.

The FYDP Has Not Been Linked to Important QDR Initiatives, Thereby Limiting Congressional Visibility

The FYDP, as currently structured, does not contain a link to defense capabilities or the dimensions of the risk management framework, both important QDR initiatives, limiting the FYDP's usefulness and congressional visibility of the initiatives' implementation. Further, although DOD is considering how to link resources to these initiatives, it does not have specific plans to make these linkages in the FYDP. The Major Force Programs, initially developed as the fundamental framework of the FYDP, remain virtually unchanged and are not representative of DOD's capabilities-based approach. Furthermore, additional program aggregations that DOD created in the FYDP's structure do not capture

¹⁹ U.S. General Accounting Office, *Bosnia: Cost Estimating Has Improved, but Operational Changes Will Affect Current Estimates*, GAO/NSIAD-97-183 (Washington, D.C.: July 28, 1997) and Omnibus Consolidated Appropriations Act, 1997 (Pub. L. No. 104-208, Sept. 3, 1999).

²⁰ U.S. General Accounting Office, *DOD Budget: Analysis of Options for Funding Contingency Operations*, GAO/NSIAD-94-152BR, (Washington, D.C.: Apr. 26, 1994).

information related to capabilities-based analysis or the risk management framework in part because these concepts have not been fully developed.

FYDP Structure Does Not Reflect QDR Initiatives

DOD has modified the FYDP over time to create new categories of program elements; however, it currently does not include categorizations that are intended to relate to the QDR's initiatives regarding defense capabilities and the risk management framework. Major Force Programs, originally established to organize the FYDP into the major DOD missions, have remained virtually the same in the five decades since their introduction, do not reflect how DOD combat forces and their missions have changed over time, and do not organize the FYDP by major defense capabilities. For example, the Major Force Program of General Purpose Forces includes large numbers of programs with varied capabilities that would complicate comparisons needed for understanding defense capabilities and associated trade-off decisions inherent in risk management. General Purpose Forces include virtually all conventional forces within DOD and slightly over one-third of DOD funding is allocated to this broad category. Ground combat units, tactical air forces, and combatant ships are among the wide array of forces considered General Purpose Forces. Including forces with such diverse capabilities in the same category diminishes the Major Force Program's usefulness to DOD and Congress for identifying trade-offs among programs. Additionally, all available resources with comparable capabilities are not categorized in the same Major Force Program. For example, the Major Force Program structure identifies Guard and Reserve forces separately despite the fact that today Guard and Reserve forces are integrated into their respective Service's force structure, deploy and fight with the general forces, and have some of the same capabilities.

Over time, as decision makers needed information not captured in the Major Force Programs, DOD created new aggregations of program elements and added attributes to the FYDP's structure. The most recent aggregation categorized the data by force and infrastructure categories, which were developed to relate every dollar, person, and piece of equipment in the FYDP to either forces or infrastructure.²¹ This model groups forces, the warfighting tools of the Combatant Commanders, into

²¹ Institute for Defense Analyses, *DOD Force & Infrastructure Categories: A FYDP-Based Conceptual Model of Department of Defense Programs and Resources*, IDA Paper P-3660, (Alexandria, Va.: September 2002).

broad operational categories according to their intended use (such as homeland defense or intelligence operations), and groups infrastructure, the set of activities needed to create and sustain forces, based upon the type of support activity it performs (such as force installations or central logistics). DOD has also added attribute fields to the program elements for such activities as space and management headquarters in order to capture the resources associated with specific areas of interest. However, these new aggregations and attributes were not intended to relate the FYDP's resources to defense capabilities or the risk management framework.

DOD Does Not Have Specific Plans to Link the FYDP to Important QDR Initiatives

According to officials, DOD does not have specific plans to link capabilities and the risk management framework to the FYDP, in part, because these concepts have not been fully developed. For example, capability-based analysis is still under development. DOD officials describe this as a complex process—representing a fundamental shift in the basis of defense planning and requiring the participation of all DOD components. In the past, DOD focused on whom an adversary might be, whereas the current approach focuses on how future adversaries might fight. DOD's April 2003 Transformation Planning Guidance states that joint operating concepts will provide the construct for a new capabilities-based resource allocation process. To date, these joint operating concepts have not been formalized. According to DOD officials, while some concepts may be completed near-term, the overall initiative is expected to take 4 to 5 years to complete.

Furthermore, although the risk management framework has been better defined than the capabilities have, it also has not been fully implemented because it has not been fully linked to resources. In December 2002, DOD instructed its components to begin displaying the linkage of plans, outputs, and resources in future budget justification material based upon the four dimensions of its risk management framework. According to DOD officials, in the fiscal year 2005 budget submission, DOD provided this linkage for 40 percent of its resources. DOD plans to complete this process by fiscal year 2007, but does not currently have plans to link the risk management framework to the FYDP as part of this process. DOD's 2003 Annual Report provided an example of how the FYDP could be linked to the risk management framework using the Force and Infrastructure categories. However, according to DOD officials, this example was intended to be a rough aggregation for a specific performance metric and is not officially recognized as the most appropriate way to show how DOD's resources link to the risk management framework. Therefore, this linkage has not been integrated into the FYDP's structure.

Conclusions

It is important for DOD and congressional decision makers to have the most complete information possible on the costs of ongoing operations as they deliberate the budget. In a previous report, we observed that if an operation continues into a new fiscal year, it would seem appropriate that DOD would build the expected costs of that operation into its budget and allow Congress to expressly authorize and appropriate funds for its continuation. We recognize that defining those expected costs is challenging and that supplemental appropriations are sometimes necessary. Nonetheless, the consequences of not considering the expected costs of ongoing operations as part of larger budget deliberations will mean that neither the administration nor congressional decision makers will have the opportunity to fully examine budget implications of the global war on terrorism. Indeed, the FYDP could be a useful tool for weighing the costs of defense priorities such as the global war on terrorism and DOD's transformation efforts. However, as a reflection of the budget, the FYDP is weakened in this regard because it does not include known or likely costs of ongoing operations funded through supplemental appropriations. Without a clear understanding of such costs, members of Congress cannot make informed decisions about appropriations between competing priorities.

Additionally, the FYDP as it is currently structured does not provide either DOD or Congress with full visibility over how resources are allocated according to key tenets of the defense strategy outlined in the QDR. As a result, resource allocations may not reflect the priorities of the defense strategy, including its new capabilities-based approach and the risk management framework. Yet, the current strategic environment and growing demand for resources require that DOD and Congress allocate resources according to the highest defense priorities. Indeed, as the common report that captures all components' future program and budget proposals, the FYDP provides DOD an option for linking resource plans to its risk management framework and capabilities assessment and providing that information to Congress. Furthermore, this linkage could provide a crosswalk between capabilities and the risk management framework such that assessments of capabilities could be made in terms of the risk management framework, which balances dimensions of risk, such as near term operational risk versus risks associated with mid- to long-term military challenges.

Recommendations for Executive Action

In the interest of providing Congress greater visibility over projected defense spending, we recommend that the Secretary of Defense direct the Undersecretary of Defense (Comptroller) to take the following two actions:

- (1) provide Congress data on known or likely costs for ongoing operations that are expected to extend into fiscal year 2005 for consideration during its deliberation over DOD's fiscal year 2005 budget request and accompanying FYDP and
- (2) include known or likely projected costs of ongoing operations for the fiscal year 2006 and subsequent budget requests and accompanying FYDPs.

To enhance the effectiveness of the FYDP as a tool for planning and analysis in the current strategic environment, the Secretary of Defense should direct the Office of Program Analysis and Evaluation to take the following two actions:

- (1) align the program elements in the FYDP to defense capabilities needed to meet the defense strategy, as these capabilities are identified and approved, and the dimensions of the risk management framework and include this alignment with the FYDP provided to Congress, and
- (2) report funding levels for defense capabilities and the dimensions of the risk framework in its summary FYDP report to Congress.

Agency Comments and Our Evaluation

In written comments on a draft of this report, DOD provided some general overarching comments concerning our characterization of the FYDP as a database, as well as other comments responding to our specific recommendations.

First, DOD noted that it had redefined the FYDP as a report rather than a database, and stated that it maintains a variety of databases to support decision making that should not be confused with the FYDP itself. DOD stated that our characterization of the FYDP as a database resulted in a misinterpretation that pervades our draft report and results in incorrect assertions and conclusions. We have updated our report to refer to the FYDP as a report rather than a database in response to the definition change provided in DOD's April 2004 guidance – issued after our draft report was sent to DOD for comment. However, we disagree with the DOD statement that characterizing the FYDP as a flexible database structure leads to incorrect assertions and conclusions. Whether the FYDP is referred to as a database or a report, it is an existing tool used to

inform analyses, as DOD acknowledged in its written comments, and it has been modified over time to capture resource information associated with special areas of interest. Although a variety of databases are maintained by DOD to support decision making, the FYDP is submitted annually to Congress, as required. Therefore, we believe that our recommendations that DOD provide Congress with greater information in fiscal year 2005 and beyond on known or likely costs of operations, and enhance the FYDP as a tool in the new strategic environment provide practical solutions for improving congressional visibility of DOD's allocation of resources, as discussed below.

DOD neither concurred nor nonconcurred with the recommendations that the Undersecretary of Defense (Comptroller) provide Congress data on known or likely costs for ongoing operations that are expected to extend into fiscal year 2005 and beyond. DOD stated that it already provides this information to Congress as soon as it is sufficiently reliable and that, at this point in the war on terrorism, current operations are too fluid to permit an accurate determination of the amount of funding required a year in advance. In response to our statement that DOD does not include the costs of ongoing operations funded through supplemental appropriations, DOD further stated that items funded through supplemental appropriations are above and beyond resources budgeted and appropriated for peacetime operations and that funding requirements for wartime and contingency operations are driven by events and situations that DOD cannot anticipate. We are encouraged that DOD agrees with the principle of providing these data to Congress as soon as they are sufficiently reliable. As we reported, DOD indicated that operations in Iraq and Afghanistan will continue into fiscal year 2005; therefore, it is reasonable that DOD would anticipate some costs associated with these operations. However, DOD did not budget any funds for these operations in its fiscal year 2005 budget request or accompanying FYDP submitted to Congress. Based on statements by the Undersecretary of Defense (Comptroller) that cost data will become clearer as the year progresses, we expect that DOD will be able to provide such data to Congress for both the fiscal year 2005 and 2006 budget deliberations. In addition, some requirements that have associated costs, such as the Army's temporary increase in endstrength, have already been identified. We acknowledge in our report the challenges associated with estimating costs for ongoing operations. Although DOD states that including these estimates would unnecessarily complicate resource discussions and decisions, we maintain that the challenges of estimating costs for ongoing operations must be weighed against Congress's responsibility for balancing government-wide

funding priorities using the best available data at the time of its budget deliberations.

Lastly, DOD nonconcurred with our recommendations for the Office of Program Analysis and Evaluation to align the program elements in the FYDP with defense capabilities and the risk management framework and include this alignment with the FYDP provided to Congress. DOD stated that it does not use the FYDP as a tool to conduct analyses of capability or risk trade-offs between systems, as such a tool would be relatively uninformative and needlessly complex, though the FYDP does inform those analyses. DOD also said it does not intend to embed capabilities or the risk management framework in the FYDP, as these constructs are still being developed and may change significantly, but it is working to create decision-support tools that will link resource allocations to capability and performance metrics, and it may be able to report on those allocations as the tools and processes mature. We maintain our view that the FYDP is the ideal vehicle for providing information on these new concepts to Congress. First, since the FYDP already exists as a legally mandated reporting mechanism, it avoids the creation of any duplicative reporting. Second, because the FYDP cuts across all the services and agencies, it provides a macro picture of DOD resource allocations in terms of both missions and appropriations. Third, as we note in our report, because the FYDP is flexible, DOD has periodically built new categories of program elements into it to provide decision makers with resource information as needed. Currently, Congress cannot use the FYDP to identify the results of DOD's resource analyses of capabilities or risk trade-offs between programs because these relationships are not aligned with the program elements in the FYDP. We recognize that the FYDP is not the only tool available for defense resource decision making; however, we note, as DOD has stated in its written comments, that the FYDP informs analyses and reflects the resource implications of decisions. While we recognize that DOD is still working to define these concepts, we maintain our view that, once defined, reporting these relationships with the FYDP provided to Congress would improve congressional visibility of DOD resource allocations.

DOD's comments are included in their entirety in appendix III. Annotated evaluations of DOD's comments are also included in appendix III.

We are sending copies of this report to the Secretary of Defense; the Undersecretary of Defense (Comptroller); and the Director, Office of Management and Budget. We will also make copies 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 about this report, please contact me at (202) 512-9619. Major contributors to this report are listed in appendix IV.

A handwritten signature in black ink that reads "Sharon L. Pickup". The signature is fluid and cursive, with "Sharon" on top and "L. Pickup" below it.

Sharon L. Pickup
Director, Defense Capabilities and Management

List of Committees

The Honorable John Warner
Chairman
The Honorable Carl Levin
Ranking Minority Member
Committee on Armed Services
United States Senate

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

The Honorable Duncan Hunter
Chairman
The Honorable Ike Skelton
Ranking Minority Member
Committee on Armed Services
House of Representatives

The Honorable Jerry Lewis
Chairman
The Honorable John Murtha
Ranking Minority Member
Subcommittee on Defense
Committee on Appropriations
House of Representatives

Appendix I: Scope and Methodology

We determined that the automated FYDP data was sufficiently reliable for use in meeting this report's objectives. DOD checks the FYDP data against its budget request sent to Congress at the appropriation category level. We also compared the FYDP data with published documents DOD provided to ensure that the automated data correctly represented DOD's budget request. Specifically, we compared total budget estimates, appropriation totals, military and civilian personnel levels, force structure levels, and some specific program information. Based on our and DOD's comparison, we were satisfied that the automated FYDP data and published data were in agreement. GAO has designated DOD's financial management area as high risk due to long-standing deficiencies in DOD's systems, processes, and internal controls.¹ Since some of these systems provide the data used in the budgeting process, there are limitations to the FYDP's use. However, since we determined the FYDP accurately represents DOD's budget request, it is sufficiently reliable as used for this report.

To determine whether the FYDP provides visibility over DOD funding priorities we compared DOD reports and Secretary of Defense congressional testimonies that supported the 2003 and 2004 budget submissions against FYDP data. We also analyzed resource data from the 2003 and 2004 FYDPs for fiscal years 2004 – 2007 to identify trends. We adjusted the current dollars to constant 2004 dollars using appropriate DOD Comptroller inflation indexes to eliminate the effects of inflation. To determine whether the FYDP provides visibility over likely future budget requests, we reviewed other related GAO, Congressional Research Service, and Congressional Budget Office reports and interviewed program and budget officials at the Office of the Secretary of Defense and service headquarters. In addition, we summarized documents related to supplemental appropriations and analyzed DOD officials' statements regarding plans for supplemental appropriations in 2005.

To determine whether the FYDP is useful for implementing DOD's risk management framework and capabilities based planning, we interviewed appropriate officials at the Office of the Secretary of Defense, service headquarters, and the Institute for Defense Analyses—the organization currently under contract to make improvements to the FYDP, and examined various DOD planning and budget documents including the 2001 Report of the Quadrennial Defense Review, DOD's 2003 Annual Report to

¹ U.S. General Accounting Office, *Major Management Challenges and Program Risks: Department of Defense*, GAO-03-98 (Washington, D.C.: Jan. 2003).

the President and the Congress, and DOD's fiscal year 2003 and 2004 budget submissions. We also examined the structure of the FYDP to determine if it currently included, or was possible to include, a link to the risk management framework or defense capabilities.

Our review was conducted between June 2003 and February 2004 in accordance with generally accepted government auditing standards.

Appendix II: Comparison of DOD's 2003 and 2004 FYDPs by Primary Appropriation Category

Total obligation authority in millions of FY 2004 dollars						
	FYDP	2004	2005	2006	2007	Total
Research, Development, Test and Evaluation	2003	\$56,891	\$59,556	\$56,823	\$54,902	\$228,172
	2004	61,827	66,001	62,182	61,304	251,314
	\$ Change	4,936	6,445	5,359	6,402	23,142
	% Change	8.7%	10.8%	9.4%	11.7%	10.1%
Procurement	2003	73,297	76,470	82,638	92,698	325,103
	2004	72,747	75,949	81,594	89,985	320,275
	\$ Change	-550	-521	-1,044	-2,713	-4,828
	% Change	-0.8%	-0.7%	-1.3%	-2.9%	-1.5%
Military Construction	2003	5,102	6,212	10,426	13,054	34,794
	2004	5,123	6,036	10,048	12,520	33,727
	\$ Change	21	-176	-378	-534	-1,067
	% Change	0.4%	-2.8%	-3.6%	-4.1%	-3.1%
Military Personnel	2003	\$103,966	\$105,025	\$107,327	\$107,638	423,956
	2004	98,956	100,174	101,447	101,776	402,353
	\$ Change	-5,010	-4,851	-5,880	-5,862	-21,603
	% Change	-4.8%	-4.6%	-5.5%	-5.4%	-5.1%
Operation and Maintenance	2003	128,052	130,367	131,653	130,407	520,479
	2004	116,959	119,002	120,675	121,356	477,992
	\$ Change	-11,093	-11,365	-10,978	-9,051	-42,487
	% Change	-8.7%	-8.7%	-8.3%	-6.9%	-8.2%
Family Housing	2003	4,322	4,984	4,734	4,572	18,612
	2004	4,371	4,694	4,904	4,537	18,506
	\$ Change	49	-290	170	-35	-106
	% Change	1.1%	-5.8%	3.6%	-0.8%	-0.6%
Other DOD Programs^a	2003	12,259	12,338	12,629	12,824	50,050
	2004	17,900	17,773	18,089	18,402	72,164
	\$ Change	5,641	5,435	5,460	5,578	22,114
	% Change	46.0%	44.1%	43.2%	43.5%	44.2%
Revolving and Management Funds	2003	2,115	2,587	2,198	3,255	10,155
	2004	2,784	1,379	2,103	1,030	7,296
	\$ Change	669	-1,208	-95	-2,225	-2,859
	% Change	31.6%	-46.7%	-4.3%	-68.4%	-28.2%

**Appendix II: Comparison of DOD's 2003 and
2004 FYDPs by Primary Appropriation
Category**

Total obligation authority in millions of FY 2004 dollars

	FYDP	2004	2005	2006	2007	Total
Undistributed Contingencies	2003	0	0	0	0	0
	2004	45	47	49	51	192
	\$ Change	45	47	49	51	192
	% Change	n/a	n/a	n/a	n/a	NA
	2003	\$386,004	\$397,539	\$408,428	\$419,350	\$1,611,321
	2004	\$380,712	\$391,055	\$401,091	\$410,961	\$1,583,819
	\$Change	-\$5,292	-\$6,484	-\$7,337	-\$8,389	-27,502
Total		%Change	-1.4%	-1.6%	-1.8%	-2.0%
						-1.7%

Source: GAO analysis of DOD data.

Note: Totals may not add due to rounding.

^aOther DOD programs include chemical agent and munitions destruction, the defense health program, drug interdiction and counter-drug activities, and the Office of the Inspector General.

Appendix III: Comments from the Department of Defense

Note: GAO comments supplementing those in the report text appear at the end of this appendix.


DEPARTMENT OF DEFENSE
UNITED STATES OF AMERICA

PROGRAM ANALYSIS
AND EVALUATION

OFFICE OF THE SECRETARY OF DEFENSE
1800 DEFENSE PENTAGON
WASHINGTON, D.C. 20301-1800

 50th ANNIVERSARY
WORLD WAR II
MEMORIAL

APR 13 2004

Ms. Sharon Pickup
Director, Defense Capabilities and Management
U.S. General Accounting Office
Washington, D.C. 20548

Dear Ms. Pickup:

This is the Department of Defense (DoD) response to the GAO draft report GAO-04-514, "FUTURE YEARS DEFENSE PROGRAM: Actions Needed to Improve Transparency of DoD's Projected Resource Needs," dated March 10, 2004 (GAO Code 350395).

First, we would like to clarify the definition of the FYDP. The FYDP is a report that lists DoD's planned resource allocations. While DoD maintains a variety of databases to support decision-making, these databases are not the FYDP itself. This misinterpretation pervades the draft report and results in incorrect assertions and conclusions.

With regard to Recommendation 1, DoD already provides to Congress reliable information on the known costs for ongoing operations as soon as it is available. DoD does not know the details of the future costs of ongoing operations far enough in advance to report them in its budget request and accompanying FYDP. Items funded through supplemental appropriations are above and beyond resources budgeted and appropriated for peacetime operations. The funding requirements for wartime and contingency operations are driven by events and situations that DoD cannot anticipate.

With regard to Recommendation 2, we nonconcur with the proposal to "align the program elements in the FYDP to 1) defense capabilities ... and 2) the dimensions of the risk management framework and include this alignment with the FDYP provided to Congress." DoD is working to create decision-support tools that will link resource allocations to capability and performance metrics, and expects to be able to report on those allocations as the tools and analyses mature.

The enclosed point paper elaborates on these issues and provides technical comments on the report language. Thank you for the opportunity to comment on the draft report.

Sincerely,


Kent Nieg
Director

Enclosure
As stated

G

**GAO DRAFT REPORT – DATED MARCH 10, 2004
GAO CODE 350395/GAO-04-514**

**“FUTURE YEARS DEFENSE PROGRAM: Actions Needed to Improve
Transparency of DoD’s Projected Resource Needs”**

**DEPARTMENT OF DEFENSE COMMENTS
TO THE RECOMMENDATIONS**

GENERAL COMMENT: We would like to clarify the definition of the FYDP. The FYDP is a report, produced in hard copy and electronic form, which lists DoD’s planned resource allocations. While DoD maintains a variety of databases to support decision-making, these databases should not be confused with the FYDP itself. This misinterpretation pervades the draft report and results in incorrect assertions and conclusions (For example, Line 3, Page 4 “...the FYDP has a flexible database structure...”). As further evidence of this definition, language in the DoD 7045.7H, FYDP Structure Handbook, that referred to the FYDP as a “database” has been changed to refer to the FYDP as a “report.”

RECOMMENDATION 1: In the interest of providing Congress greater visibility over projected defense spending, GAO recommended that the Secretary of Defense direct the Under Secretary of Defense (Comptroller) to take the following actions:

- provide Congress data on known or likely costs for ongoing operations that are expected to extend into fiscal year 2005 for consideration during its deliberation over DoD’s fiscal year 2005 budget request and accompanying FYDP and
- include known or likely projected costs of ongoing operations in the fiscal year 2006 and subsequent budget requests and accompanying FYDPs. (pgs. 19-20, GAO Draft Report)

DoD RESPONSE: DoD does provide data to Congress on the estimated costs of continuing operations as soon as that information is sufficiently reliable. However, at this point in the War on Terrorism, current operations are simply too fluid to accurately determine a year in advance the amount of additional funding that would be required. As such, any attempt to include these estimates in DoD’s budget request or FYDP would unnecessarily complicate resource discussions and decisions.

RECOMMENDATION 2: To enhance the effectiveness of the FYDP as a tool for planning and analysis in the current strategic environment, GAO recommended that the Secretary of Defense direct the Office of Program Analysis and Evaluation to take the following two actions:

- align the program elements in the FYDP to (1) defense capabilities needed to meet the defense strategy, as these capabilities are identified and approved and (2) the dimensions of the risk management framework and include this alignment with the FYDP provided to Congress, and
- report funding levels for defense capabilities and the dimensions of the risk

Now on pp. 18-19.

Now on pp. 19-20.

Now on p. 20.

Appendix III: Comments from the Department of Defense

framework in its summary FYDP report to Congress. (p. 20/GAO Draft Report)

DoD RESPONSE: Nonconcur with the recommendation to “align the program elements in the FYDP to 1) defense capabilities... and 2) the dimensions of the risk management framework and include this alignment with the FDYP provided to Congress.

- As identified in the GAO report, DoD is in the process of transitioning to “capabilities-based analysis.” While this is a fundamental change in process, the analytical output of the process will still result in selection of certain programs over others. The current construct of the FYDP system enables us to determine relevant program changes. A FYDP construct that buys “long range precision strike” or other capabilities would be less informative than the current system and would be needlessly complex. DoD does not use the FYDP as a tool to conduct analysis of capability or risk tradeoffs between systems. However, the FYDP does inform those analyses and reflects the resource implications of those tradeoffs.
- DoD does not intend to embed capabilities or the risk management framework in the FYDP. Both of these constructs are still in development and may change significantly over time. However, information on programs and platforms contained in the FYDP may be aligned to capabilities or the risk management framework through other analytical tools and processes. DoD is working to create decision-support tools that will link resource allocations to capability and risk management frameworks. As these tools and processes mature, DoD may be able to report funding levels for defense capabilities and the dimensions of the risk management framework to Congress.

SPECIFIC TECHNICAL COMMENTS ON REPORT LANGUAGE:

COMMENT 1: Cover page, “What GAO Found”, line 6: “... DoD likely understates the future costs of programs in the FYDP because it has historically employed overly optimistic planning assumptions in its budget formulations.”

DoD RESPONSE:

- Strongly object to this language and its repetition throughout the report (page 3, line 2; pages 10-12). Although modified slightly in the body of the report, the initial statements on the report’s front page and in the “Results in Brief” section are highly inflammatory and do not reflect DoD’s recent efforts to correct this problem.
- Effective with the Fiscal Guidance provided to components in preparation for development of the FYDP for Fiscal Years 2003-2007, signed by the Deputy Secretary of Defense, DoD established guidance that all major acquisition programs should be funded to the Cost Analysis Improvement Group (CAIG) estimates. Although we do not yet have auditable data that document the effects of this guidance in execution, CAIG estimates have historically been far more accurate than Service estimates. DoD expects its efforts in this regard to significantly reduce future resource shortfalls and requests that this initiative be properly credited in all relevant sections of this report.

COMMENT 2: Page 2, Paragraph 3: “... the FYDP provides less visibility over some important funding categories and may underestimate some costs. For example, costs for some high priority items -- such as civilian personnel ...”

Now on pp. 11-12 and see comment 1.

See comment 2.

Appendix III: Comments from the Department of Defense

Now on pp. 19-20 and see comment 3.

See comment 4.

See comment 5.

DoD RESPONSE:

- Civilian personnel costs are included in the pricing of all programs in the FYDP. Apparent "cost growth" of civilian personnel generally results from Congressionally authorized pay raises that exceed the planning assumptions used for outyear forecasts of civilian manpower costs. The planning rates are developed in coordination with the Office of Management and Budget.
- Civilian Personnel are inputs to a program. Disassociating civilian personnel costs from any program would decrease rather than increase visibility of total program costs.

COMMENT 3: Page 3, Paragraph 2: "... DOD does not include the costs of ongoing operations funded through supplemental appropriations, such as the global war on terrorism... we are recommending that DOD provide information on known or likely costs for ongoing operations to Congress for consideration during its fiscal year 2005 and future budget deliberations."

DoD RESPONSE:

- DoD already provides to Congress reliable information on the known costs for ongoing operations as soon as it is available. DoD does not know enough of the details of the expected future cost of current ongoing operations far enough in advance to report them in the FY 2005 budget request and accompanying FYDP.
- Items funded through supplemental appropriations are above and beyond resources budgeted and appropriated for peacetime operations. Many of the funding requirements for war-time and contingency operations are driven by events and situations that cannot be anticipated in any scenario-driven, capabilities-based planning process employed by DoD.

COMMENT 4: Page 3, Paragraph 2: "... such as the cost of increased Army force structure." Also referenced on page 15, lines 2-5.

DoD RESPONSE:

- Language in the report implies that DoD has fully identified the cost of increased Army force structure and so should report these costs to Congress in our budget request for FY 2005. In fact, we have not yet fully identified the specific costs by fiscal year of the Army plan. The work to define the particulars of this plan in sufficient detail to support budget development is still in progress.

COMMENT 5: Page 11: "Cost increases have been a factor in the Air Force substantially decreasing the number of F/A-22 Raptors to be purchased -- from 648 to 276."

AIR FORCE RESPONSE:

- Language in the draft report implies that the quantity reduction from 648 to 276 is largely due to affordability issues. In fact, much of the quantity reduction stems from two DoD Quadrennial Defense Reviews (QDRs), which in turn drove up the cost of the remaining units. The 1993 Bottom-up Review (BUR) and the 1997 QDR reductions accounted for 305 aircraft.
- The Air Force stands firmly behind the F/A-22 program and the validated requirement of a minimum 381 Raptors to support the joint warfighters' requirement for Air Dominance. The Raptor will enable warfighters to counter advanced surface-to-air missile systems and

See comment 6.

next generation fighters. The baseline Raptor includes a lethal ground-attack capability-- future capabilities will include supersonic JDAM and Small Diameter Bomb. Air Force is on track for a Dec 2005 Initial Operational Capability. The program has made tremendous progress in avionics stability in the past 12 months. Current results from the most recent installed software indicate we are exceeding the 5-hour requirement. Air Force pilots and maintainers continue to be impressed by the Raptor's capabilities—the F/A-22 is meeting, and in many cases exceeding, key performance requirements, including stealth, speed, and sensor performance during operational tests.

- Change text to read: “Cost increases have been a factor in the reduction of the number of F/A-22 aircraft that can be acquired. The major impact, however, was a result of two Quadrennial Defense Reviews that accounted for 305 aircraft.”

COMMENT 6: Page 11: “Current budget estimates, which exceed mandated cost limitations, are dependent on billions of dollars of cost offset initiatives, which, if not achieved as planned, will further increase program costs.”

AIR FORCE RESPONSE:

- Our Production Improvement Program savings achieved to date give us confidence future cost savings will also be realized. The AF has no intention of violating the Congressional cost cap.
- Add following additional sentences: “To date, the Air Force has invested \$512 M through FY03/Lot 3 and is planning to invest \$182M in FY04 with \$30M more planned in FY05 & 06 in cost reduction initiatives. Program Office and independent assessments confirm that the projected savings are being realized (DCAA Summer/Fall 00, *Draft AFAA Mar 04*). These assessments reaffirm that the PIP investment is essential to F/A-22 affordability. Additionally, the Air Force intends to seek Congressional cost cap relief as part of the FY06 PB, well before the cap is breached.”

REQUEST TO ADD TO AGENCY COMMENTS (p.21), AIR FORCE:

“The Department has made tremendous strides in incorporating a capability-based mindset to its resource allocation process. For example, the AF has found its capability-based process to be valuable in informing key decisions during the resource allocation process. The process, though new, is already having significant positive impact for FY06 by assessing how well resource allocation meets capability requirements. In time, this process will play a vital role in shaping the POM from the outset. Thus, the Department is aggressively adapting its processes to best meet national security needs, and the capability-based approach is making valuable contributions to the Department's resource allocation decisions. Much work needs to be done, however, and the Department is not yet ready to realign program elements and major force programs to the capability-based requirements.”

The following are GAO's comments on the Department of Defense's letter dated April 13, 2004.

GAO Comments

1. DOD objected to our observation that DOD has historically employed overly optimistic planning assumptions in its budget formulations. In response to its comments, we acknowledged DOD guidance to reduce future resource shortfalls on page 11 of this report and noted the lack of auditable data to document the effects of this guidance. We also provided additional examples of GAO reports that continue to raise questions about DOD's planning assumptions.
2. DOD provided a rationale for growth in civilian personnel costs. We intended civilian personnel to be an example of costs not visible in the FYDP, as opposed to an example of cost growth. Therefore, we have clarified the language on page 2 of this report to reflect this point. Further, we are not proposing that civilian personnel costs be disassociated from programs, as suggested by DOD's comments.
3. DOD reiterated that it already provides Congress reliable information on the known costs for ongoing operations as soon as it is available. As we stated in our evaluation of agency comments on page 19 of this report, we are encouraged that DOD agrees with the principle of providing these data to Congress as soon as they are sufficiently reliable. However, we note that cost data is expected to become clearer as the year progresses and some requirements that have associated costs have already been identified. Therefore, we expect that DOD will be able to provide such data to Congress for their fiscal year 2005 and 2006 budget deliberations.
4. DOD noted that our report implied that the cost of increased Army force structure has been fully identified and asserted that, to the contrary, the work to define the particulars of this plan in sufficient detail to support budget development is still in progress. However, we note that in February 2004, the Undersecretary of Defense (Comptroller) outlined an Army force-restructuring plan that would be partially funded through the existing fiscal year 2004 supplemental appropriation. While DOD may not have fully defined the particulars of this plan, since it has identified a funding timeline, we believe that at least some of the cost of increased Army force structure can be estimated at this time.
5. Based on comments from the Air Force, DOD asked that we clarify that the reduction in the number of F/A-22 aircraft being purchased

was not largely due to cost increases, and it referred to the role played by two Quadrennial Defense Reviews in the decision. Our report stated, however, that cost increases have been one factor in the Air Force's substantially decreasing the number of F/A-22 Raptors to be purchased – from 648 to 276. Moreover, development costs have increased dramatically and in a report that was issued after this draft was sent to DOD for comment, GAO continued to observe that additional increases in development costs for the F/A-22 are likely.¹ We maintain our view that the F/A-22 program illustrates that DOD's funding needs in some areas exceed the estimates used in the FYDP.

6. Based on comments from the Air Force, DOD challenged our implication that the F/A-22 program will exceed mandated cost limitations if billions of dollars of cost offset initiatives are not achieved as planned. In February 2003, we reported that the Air Force has had some success in implementing cost reduction plans to offset cost growth.² However, production improvement programs, also designed to offset costs, have faced recent funding cutbacks and therefore are unlikely to offset cost growth as planned. The Air Force stated that it has no intention of violating mandated cost limitations, but that it does intend to seek relief from them as part of the fiscal year 2006 President's budget. To the extent that the Air Force requests additional funds for the F/A-22, our view that the FYDP understates costs is further confirmed.

¹ U.S. General Accounting Office, *Tactical Aircraft: Changing Conditions Drive Need for New F/A-22 Business Case*, [GAO-04-391](#) (Washington, D.C.: Mar. 15, 2004).

² U.S. General Accounting Office, *Tactical Aircraft: DOD Needs to Better Inform Congress about Implications of Continuing F/A-22 Cost Growth*, [GAO-03-280](#) (Washington, D.C.: Feb. 28, 2003).

Appendix IV: GAO Contact and Staff Acknowledgments

GAO Contact

Gwendolyn R. Jaffe (202) 512-4691

Acknowledgments

In addition to the person named above, Patricia Lentini, Margaret Best, Barbara Gannon, Christine Fossett, Tom Mahalek, Betsy Morris, Ricardo Marquez, Jane Hunt, and Michael Zola also made major contributions to this report.

GAO's Mission

The General Accounting Office, the audit, evaluation and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through the Internet. GAO's Web site (www.gao.gov) contains abstracts and full-text files of current reports and testimony and an expanding archive of older products. The Web site features a search engine to help you locate documents using key words and phrases. You can print these documents in their entirety, including charts and other graphics.

Each day, GAO issues a list of newly released reports, testimony, and correspondence. GAO posts this list, known as "Today's Reports," on its Web site daily. The list contains links to the full-text document files. To have GAO e-mail this list to you every afternoon, go to www.gao.gov and select "Subscribe to e-mail alerts" under the "Order GAO Products" heading.

Order by Mail or Phone

The first copy of each printed report is free. Additional copies are \$2 each. A check or money order should be made out to the Superintendent of Documents. GAO also accepts VISA and Mastercard. Orders for 100 or more copies mailed to a single address are discounted 25 percent. Orders should be sent to:

U.S. General Accounting Office
441 G Street NW, Room LM
Washington, D.C. 20548

To order by Phone: Voice: (202) 512-6000
 TDD: (202) 512-2537
 Fax: (202) 512-6061

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: www.gao.gov/fraudnet/fraudnet.htm

E-mail: fraudnet@gao.gov

Automated answering system: (800) 424-5454 or (202) 512-7470

Public Affairs

Jeff Nelligan, Managing Director, NelliganJ@gao.gov (202) 512-4800
U.S. General Accounting Office, 441 G Street NW, Room 7149
Washington, D.C. 20548