



G A O

Accountability * Integrity * Reliability

United States General Accounting Office
Washington, DC 20548

March 20, 2001

The Honorable Donald H. Rumsfeld
Secretary of Defense

Subject: Defense Planning: Opportunities to Improve Strategic Reviews

Dear Mr. Secretary:

For the past several years, the General Accounting Office (GAO) has reviewed the Department of Defense's (DOD) efforts to strategically plan for the nation's defense needs and prepare related budgets. In particular, we evaluated DOD's methodology for conducting the 1993 Bottom-Up Review and the 1997 Quadrennial Defense Review (QDR), and its preparation of several Future Years Defense Programs (FYDP). As the Department begins a new effort to review its strategic priorities, consider alternatives to current forces, weapons programs, and support operations, and reach investment decisions, we would like to share some observations based on our past work for your consideration. In particular, these areas relate to the importance of 1) using realistic assumptions and integrated analyses to reach force structure and modernization decisions, 2) preparing FYDPs that clearly link strategy and resources, and 3) ensuring the Department's review efforts carefully scrutinize opportunities to reduce support infrastructure and improve business processes.

USE OF REALISTIC ASSUMPTIONS AND
INTEGRATED ANALYSES NEEDED TO FULLY
ASSESS FORCE STRUCTURE AND
MODERNIZATION ALTERNATIVES

Our evaluation of the 1993 Bottom-Up Review and the 1997 QDR identified limitations in DOD's analytical approach to assessing defense needs and opportunities to strengthen future review efforts.¹

¹ Bottom-Up Review: Analysis of Key DOD Assumptions (GAO/NSIAD-95-56, Jan. 31, 1995) and Quadrennial Defense Review: Opportunities to Improve the Next Review (GAO/NSIAD-97-144, June 25, 1998).

1993 Bottom-Up Review

In the Bottom-Up Review, DOD judged that it was prudent to maintain the capability to fight and win two nearly simultaneous major regional conflicts and determined the forces, capability improvements, and funding necessary to do so. However, DOD reached its conclusions without fully analyzing the validity of key assumptions it made regarding the availability of forces, supporting capabilities, and enhancements. Furthermore, some of DOD's assumptions were questionable.

For example, DOD assumed that forces would be redeployed from other operations, such as peacekeeping, to regional conflicts or between regional conflicts. However, our work showed that critical combat and support forces needed in the early stages of a conflict may not be able to quickly redeploy from peace operations because (1) certain Army support forces would need to remain to facilitate the redeployment of other forces and (2) logistics and maintenance support for specialized Air Force aircraft would have to wait for available airlift. DOD also assumed sufficient strategic lift assets, prepositioned equipment, and support forces would be available. However, at the time of our review in 1994 and 1995, our work showed that the Army lacked sufficient numbers of certain support units to meet requirements for a single conflict and that DOD had encountered problems or funding uncertainties in acquiring additional airlift and sealift and prepositioned equipment.

Based on our work, we concluded that until DOD fully analyzed its assumptions, it would not have a firm basis for determining the forces, supporting capabilities, and funding needed for the strategy. We recommended that DOD thoroughly examine key Bottom-Up Review assumptions. In a subsequent war game called Nimble Dancer, DOD further analyzed its Bottom-Up Review assumptions and conclusions. While the war game provided a useful forum for identifying critical issues, we found limitations in its analysis.² For example, DOD examined the impact of extracting forces from peace operations and redeploying them to a major regional conflict, but did not test the sensitivity of its assumption that strategic lift would be available.

² Bottom-Up Review: Analysis of DOD War Game to Test Key Assumptions (GAO/NSIAD-96-170, June 21, 1996).

1997 QDR

The 1997 QDR, while broader in scope and more rigorous in some aspects than the 1993 Bottom-Up Review, also had some limitations that precluded a full analysis of defense needs. One limitation was that it did not examine some alternatives that would have provided greater assurance that the review identified the force structure and the modernization program that were best suited to implement the defense strategy. For example, the QDR's force assessments only modeled alternatives to cut the services' forces proportionately by 10, 20, and 30 percent. It did not examine alternatives that would reduce or increase only ground forces or air power or naval forces. Furthermore, none of the assessments fully examined the potential effects of new technologies and war-fighting concepts on DOD's planned force structure.

The 1997 QDR also did not include a thorough mission-oriented review of the mix of capabilities the United States would need to counter future threats. For example, DOD analyzed modernization options that would reduce or increase planned funding for systems by up to 10 percent. It did not examine trade-offs or fundamentally reassess modernization needs in light of emerging threats and technological advances.

Furthermore, the modernization and force structure analyses were not fully integrated. As a result, the QDR did not sufficiently examine linkages and trade-offs between force structure and modernization decisions.

In addition to our Bottom-Up Review and QDR analyses, we previously reported on the benefits of looking at modernization and force structure from an integrated perspective.

For example, in two 1996 reports on combat air power,³ we noted that DOD was not developing sufficient information from a joint perspective to enable the Secretary of Defense to prioritize programs, objectively weigh the merits of new investments, and decide whether current programs should continue to receive funding. As a result, we concluded that DOD was proceeding with some major investments without clear evidence the programs were justified. Our assessments indicated that some modernization programs would add only marginally to already formidable capabilities. Moreover, the changed security environment had altered the need for some programs and, in some cases, less costly alternatives existed. Also, in a June 1997 report on overseas presence,⁴ we concluded that DOD's process for determining presence requirements did not analyze whether more cost-effective alternatives—different levels and mixes of forces and activities—might exist.

Currently, DOD faces the same challenge as it did during the Bottom-Up Review and 1997 QDR—developing an affordable defense program that provides the necessary

³ U.S. Combat Air Power: Reassessing Plans to Modernize Interdiction Capabilities Could Save Billions (GAO/NSIAD-96-72, May 13, 1996) and Combat Air Power: Joint Mission Assessments Needed Before Making Program and Budget Decisions (GAO/NSIAD-96-177, Sept. 20, 1996).

⁴ Overseas Presence: More Data and Analysis Needed to Determine Whether Cost-Effective Alternatives Exist (GAO/NSIAD-97-133, June 3, 1997).

current and future military capabilities to support the U.S. strategy. While the DOD may approach the current effort differently, the need for strong analytic rigor in its review methodology remains. In this regard, our observations on the past efforts remain relevant today and can provide some useful insights as the Department plans and conducts its ongoing review (see enclosure II).

NEED FOR MORE REALISTIC BUDGETING

Since the mid-1980s, we have reported that DOD employs overly optimistic planning assumptions in its budget formulation. As a result, DOD has too many programs for available dollars, which often leads to program instability, costly program stretch-outs, and program terminations. In particular, our analysis of DOD's budget formulation efforts since the mid-1980s and specific FYDPs for fiscal years 1995 through 2001 shows that DOD's FYDPs repeatedly include unrealistic estimates of savings from plans to reduce infrastructure, competitive sourcing, reengineering, and other defense reform initiatives. Also, it continues to underestimate operating costs for various activities such as real property maintenance, the Defense Health Program, and operations such as U.S. involvement in Kosovo and Bosnia. Furthermore, DOD continues to use projections for increased procurement funding that do not recognize significant historical experience with the proportional rise and fall of procurement funding to movements in the total budget. Because of these deficiencies, DOD's ability to implement its program as planned is at risk, year after year.

While DOD has made some adjustments to achieve a better balance in its financial plans to meet current requirements and address long-term modernization needs, a "mismatch" between strategy and resources continues to exist. The most recent FYDP covering fiscal years 2001 through 2005 continues this trend. As the Department prepares future FYDPs, we suggest you consider our observations on its past efforts (see enclosure III).

IMPORTANCE OF FULLY EXAMINING SUPPORT INFRASTRUCTURE AND BUSINESS PROCESSES DURING CURRENT REVIEW EFFORTS

The 1993 Bottom-Up Review and 1997 QDR emphasized the need to reduce DOD's infrastructure to offset the cost of future modern weapons systems and to improve the effectiveness and efficiency of business processes. In November 1997, DOD announced the Defense Reform Initiative—a major effort to modernize the Department's business processes and reduce its infrastructure costs. In 1999 and 2000, we reported that DOD had made progress in implementing the reform initiative.⁵ For example, DOD established a management oversight structure that helped get the initiative off to a good start and had completed or was likely to complete certain initiatives on schedule such as reorganizing and reducing staff in certain headquarters offices. To provide a roadmap for reform and help sustain

⁵ Defense Management: Actions Needed to Sustain Reform Initiatives and Achieve Greater Results (GAO/NSIAD-00-72, Jul. 25, 2000) and Defense Reform Initiative: Organization, Status and Challenges (GAO/NSIAD-99-87, Apr. 21, 1999).

momentum, we recommended that DOD develop a comprehensive, integrated strategy and action plan for reforming its major business processes and support activities, and an investment plan for implementing reforms. While the Department agreed with our recommendation, it did not specify what actions it would take and has not yet developed a long term integrated plan for implementing reform initiatives.

In January 2001, we reported on the major management challenges facing DOD and risks in several interrelated areas of the defense program.⁶ Focusing on strategic planning, support infrastructure, and key business processes such as financial management and information systems, weapons system acquisition, and logistics support systems, we summarized the Department's progress in initiating reforms and areas requiring further improvements. For example, despite reform efforts, infrastructure costs continue to consume a larger than necessary portion of the defense budget and serious weaknesses continue to exist in logistics activities.

In its past strategic reviews, the Department has focused substantial attention on analyzing force structure and modernization requirements. However, if problems on the business side of DOD's mission are not addressed, inefficiencies will continue to make the cost of carrying out unassigned missions unnecessarily high and increase the risk associated with these missions. In this regard, each dollar that is spent inefficiently on support activities is a dollar that is unavailable to meet other internal priorities such as modernization and readiness. The current review offers an indispensable opportunity for the Department to assign high priority to addressing longstanding problems in its infrastructure and key business processes as we have recommended in our reports.

I recognize the issues raised in this letter are not new and that you have already begun a strategic review as a precursor to determining specific defense needs and the appropriate level of resources for the defense program. A recurring theme of our work is that results-oriented management and decisionmaking based on sound strategic planning is essential to achieving desired outcomes. In this regard, major statutes such as the Government Performance and Results Act, the Clinger-Cohen Act, and the Chief Financial Officers Act provide a powerful framework for DOD to identify missions and strategic priorities, establish performance goals and data to measure the level of achievement of these goals, and make investment decisions based on strategic priorities and performance outcomes. I encourage you to seriously consider using this legislative framework as the foundation for the Department's review efforts.

- - - -

⁶ Major Management Challenges and Program Risks: Department of Defense (GAO-01-244, Jan. 2001).

I hope that the Department will consider our observations in its review efforts. If you think it beneficial, I would be glad to make members of my staff available to brief the Department in more detail on any of the subjects discussed in this letter. If you have any questions, please contact me at (202) 512-4300.

Sincerely yours,

A handwritten signature in black ink that reads "Henry L. Hinton, Jr." The signature is written in a cursive style with a prominent "H" and a long, sweeping tail on the "Jr.".

Henry L. Hinton, Jr.
Managing Director,
Defense Capabilities and
Management

Relevant GAO Products

Future Years Defense Program: Risks in Operation and Maintenance Procurement Programs (GAO-01-33, Oct. 5, 2000).

Future Years Defense Program: Comparison of Planned Funding Levels for the 2000 and 2001 Programs (GAO/NSIAD-00-179, June 14, 2000).

Future Years Defense Program: Funding Increase and Planned Savings in Fiscal Year 2000 Program Are at Risk (GAO/NSIAD-00-11, Nov. 22, 1999).

DOD Budget: Substantial Risks in Weapons Modernization Plans (GAO/T-NSIAD-99-20, Oct. 8, 1998).

Future Years Defense Program: Substantial Risks Remain in DOD's 1999-2003 Plan (GAO/NSIAD-98-204, July 31, 1998).

Defense Budget: Projected Inflation Savings (GAO/NSIAD-98-177R, May 11, 1998).

Future Years Defense Program: DOD's 1998 Plan Has Substantial Risk in Execution (GAO/NSIAD-98-26, Oct. 23, 1997).

Future Years Defense Program: Lower Inflation Outlook Was Most Significant Change From 1996 to 1997 Program (GAO/NSIAD-97-36, Dec. 12, 1996).

Future Years Defense Program: 1996 Program Is Considerably Different From the 1995 Program (GAO/NSIAD-95-213, Sept. 15, 1995).

Future Years Defense Program: Optimistic Estimates Lead to Billions in Overprogramming (GAO/T-NSIAD-95-83, Jan. 19, 1995).

Future Years Defense Program: Optimistic Estimates Lead to Billions in Overprogramming (GAO/NSIAD-94-210, July 29, 1994).

GAO’s Key Observations and Recommendations or Suggestions on the Department of Defense’s 1993 Bottom-Up Review and 1997 Quadrennial Defense Review

Area of focus	Our observations	Our recommendations or suggestions
Bottom-Up Review analysis	The Department of Defense (DOD) did not fully test or analyze key assumptions regarding the availability of forces and assets to redeploy from one theater to another, deployability of reserve forces, sufficiency of support capabilities such as mobility and support forces, and planned capability enhancements such as precision munitions were not fully tested and some were questionable.	DOD should thoroughly examine assumptions related to the redeployment of forces and assets from lesser operations to major conflicts or between major conflicts, availability of mobility, support and reserve forces, and planned enhancements to strategic lift and firepower.
QDR preparation	DOD had not developed a formal process to prepare for and coordinate activities related to future Quadrennial Defense Reviews (QDR). DOD did not finalize the defense strategy until the force structure and modernization panels had completed much of their work.	DOD should assign overall responsibility and coordination of preparation efforts for future QDRs. Such efforts should include to identify analytic tools and data needed for assessments, monitor efforts to upgrade models, summarize lessons learned, and consider changing the QDR structure and timing to allow sufficient time to conduct a strategy review and good analytic base.
QDR structure and methodology	<p>DOD’s force structure assessments modeled only major theater warfare and did not examine alternatives other than proportional reductions to the services’ combat capabilities.</p> <p>In a QDR-war game, Dynamic Commitment, DOD analyzed the effect of small scale contingencies but did not identify or analyze changes to force structure.</p> <p>DOD’s modernization assessment reviewed proportional changes to existing plans but did not examine alternative mixes of air, ground, and maritime modernization.</p> <p>Modernization and force structure panels completed their analyses separately and did not model trade-offs between force structure and modernization alternatives.</p> <p>DOD did not examine the potential effects of new or advanced technologies or enemy use of asymmetric concepts of warfare used by U.S. and enemy forces on operational concepts or force structure because of limitations in available models.</p>	<p>DOD could model existing force structure prior to next QDR to establish a baseline to use as a basis for comparison and allow more emphasis on modeling alternative structures.</p> <p>DOD could examine ways to improve the war game. These improvements can be used to examine force structure alternatives.</p> <p>DOD could vary the mix to provide more insight into modernization tradeoffs.</p> <p>To ensure better integration, DOD could form one panel to analyze force structure and modernization issues or maintain separate panels but provide guidance to ensure that panels collaborate and examine trade-offs.</p> <p>DOD needs to determine how it can improve its analysis of the impact of technological advances and asymmetric concepts of warfare.</p>

Source: Our analysis.

GAO's Observations on DOD's Budget Formulation Efforts and Future Years Defense Programs for Fiscal Years 1995 through 2001

Area of focus	Our observations	Results of DOD's actions
<p>Planning assumptions</p>	<p>Since the mid-1980s, we have reported and testified that DOD employs overly optimistic planning assumptions in its budget formulation, which leads to far too many programs for the available dollars.</p> <p>Optimistic planning assumptions used in DOD's Future Year Defense Programs (FYDP) often fall into one or more of the following categories: overestimation of future savings to be generated from management initiatives, competitive sourcing, and reengineering; underestimation of costs; and use of overly optimistic inflation forecasts and fuel costs and favorable foreign currency exchange rates.</p>	<p>DOD has too many programs for the available dollars, which often leads to program instability, costly program stretch-outs, and program terminations.</p> <p>Optimistic planning makes defense priorities unclear because tough decisions and trade-offs between needs and wants are avoided. It also increases the risk that DOD will not be able to execute its programs as planned. For example, our reviews of DOD's FYDPs over the past few years have shown that DOD has not been able to reduce its infrastructure and increase procurement funding to the extent desired. This problem can be attributed somewhat to optimistic projections of future savings that did not materialize.</p>
<p>Shifting of funds</p>	<p>Based on our analysis of DOD's FYDPs, we have consistently reported that DOD has had difficulty meeting its planned growth in procurement funds and as a result, increases in procurement funds were shifted to the future. This pattern was caused by the need to use procurement funds for operation and maintenance activities, which have continued to represent a large proportion of DOD's budget.</p>	<p>Further shifting of planned procurement funding creates a large demand for procurement funding in later years. This movement raises the risk that budgeted funds will be insufficient to cover needs. As a result, existing equipment could deteriorate and become obsolete, which could compromise the technological superiority of future forces.</p> <p>Budgets do not reflect realistic estimates for procurement funding due to the long-standing problem of cost growth. Costs of several weapons systems could exceed current project costs.</p>

Source: Our analysis.

(350056)