

**DEPARTMENT OF DEFENSE BULK FUEL:
APPROPRIATIONS VS. USAGE**

HEARING

BEFORE THE

SUBCOMMITTEE ON NATIONAL SECURITY,
INTERNATIONAL AFFAIRS, AND CRIMINAL JUSTICE
OF THE

COMMITTEE ON GOVERNMENT
REFORM AND OVERSIGHT
HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

SECOND SESSION

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DEPARTMENT OF DEFENSE BULK FUEL: APPROPRIATIONS VS. USAGE

TUESDAY, JULY 30, 1996

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON NATIONAL SECURITY, INTERNATIONAL
AFFAIRS, AND CRIMINAL JUSTICE,
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:03 a.m., in room 311, Cannon House Office Building, Hon. William H. Zeff (chairman of the subcommittee) presiding.

Present: Representatives Souder, Thurman, Slaughter and Cummings.

Staff present: Robert B. Charles, staff director and chief counsel; Jim Y. Wilson, defense counsel; Andrew Richardson, professional staff member; Ianthe Saylor, clerk; and Cheri Branson and Daniel Hernandez, minority professional staff members.

Mr. SOUDER [presiding]. The Subcommittee on National Security, International Affairs, and Criminal Justice will come to order.

Good morning, and thank you all for coming. Today's hearing is concerned with a financial accountability problem within the Department of Defense; that is, the all too common practice for requesting funds for one designated purpose, but then spending the money on something completely different. Specifically, we will look at a few examples of such diversions of funds within the military's operations and maintenance budget, beginning with the example of bulk fuel purchases.

First, by way of background, I must note that the O&M budget, which is currently over \$81 billion, accounts for one-third of the Defense budget. This vast fund encompasses everything from bullets to babysitters, and the DOD has a great deal of flexibility in transferring funds from one part of the O&M fund to another. To an extent, this flexibility is necessary because actual needs often differ from anticipated needs, especially in the military which is subject to all kinds of extraordinary contingencies. Thus, it would be highly unrealistic to expect every budget expense to turn out exactly as it was predicted. However, when funds are continually transferred year after year, from one area to another, it is no longer a simple accident; rather, it has become an institutional problem.

For example, let's take a look at bulk fuel purchases. The General Accounting Office recently reported that going back to at least 1991, the military has requested more money than it needed for fuel purchases. GAO has estimated that for fiscal year 1996, DOD

requested \$440 million more than it needed. Further, GAO has recently reported that the fiscal 1997 budget for bulk fuel is too large by at least \$183 million. This extra money is not returned to the Treasury every year; instead it is spent on other DOD priorities. Such consistent overbudgeting is not a healthy sign, and it demands an explanation.

Similarly, GAO has reported that funds budgeted for Army combat readiness training, also called Operating Tempo, or OPTEMPO, funding, are regularly diverted to other purposes, such as base operations and real property maintenance.

GAO examined the fiscal year 1993 and 1994 OPTEMPO funding for the U.S. Forces Command and U.S. Army Europe and concluded that one-third of their OPTEMPO budget, or \$1.2 billion out of \$3.6 billion, was diverted from training to other expenditures.

In fiscal year 1995, the Army only spent about 90 percent of its OPTEMPO funding on OPTEMPO expenditures, diverting the rest, and the GAO predicts a similar level of expenditure for fiscal year 1996. Based on this trend, the GAO has stated that the Army's OPTEMPO budget for the upcoming fiscal year 1997 is too high by \$235 million.

A third area of concern is the depot-level maintenance, the high-level maintenance which is crucial to the combat readiness and military vehicles, aircraft and equipment. GAO found that in fiscal years 1993 and 1994, the amount of depot maintenance work accomplished by the services was about \$485 million less than the amount requested by DOD and about \$832 million less than the amount actually provided by Congress. The funds not used for depot maintenance were diverted to contingencies operations, base support and real property maintenance. Because of this, our colleagues on the Appropriations Committee have begun to require notification and an explanation from DOD when funds are diverted from depot maintenance to other purposes.

Looking at the preceding examples and many others, the GAO has identified a trend within the O&M budget as a whole. It seems that within the O&M budget, the services have repeatedly requested money for combat readiness-related purposes, but then transferred some of the money to infrastructure expenses.

For example, from fiscal year 1993 to 1995, the Army requested \$18.3 billion for combat forces and training, but spent only \$16 billion on those activities. On the other hand, the Army requested only \$32.4 million for base support and infrastructure, but managed to spend \$39.7 billion on these items. This is a disturbing trend which directly contradicts the guidance of the Secretary of Defense, who has emphasized that the DOD infrastructure must be streamlined in order to pay for military readiness and force modernization.

Thus, we must get to the bottom of this problem. If it is just a matter of DOD using faulty accounting methods to put together its budget request, then those methods must be revised. If, on the other hand, this overbudgeting is intentional, in other words, if DOD is padding its budgets for combat forces and training because such requests are likely to get a positive response from the Congress, but DOD really intends to divert some of the money to infra-

structure, then we must reform the DOD budgeting process to ensure greater honesty and accountability.

Having said all that, I want to emphasize it is not the purpose of this hearing to victimize the Department of Defense. We all recognize that in recent years, DOD has had to take on more and more missions with fewer and fewer resources, and I for one have no desire to reduce DOD's funding even more than it has been already. We simply want to make sure that DOD's funds are spent responsibly, efficiently, and in accordance with the wishes of Congress. Improvements such as these can only further enhance the security of our Nation.

Second, I must admit that the executive branch and the Congress may share some of the responsibility for DOD's transfers of O&M funds. DOD has noted that often we are often quick to send U.S. forces on contingency missions. We are sometimes not so quick to provide the necessary supplemental appropriations to fund those missions, and so DOD has to find the money wherever it can. This is also a legitimate ground of inquiry for our hearing today.

I want to personally add that in addition to that, and reinforcing the fact that I have been a hawk on the spending side because I believe we need to have a strong defense, but part of our oversight function is to look at all agencies, including the Department of Defense, and as we see many programs that are very small in dollars taking large reductions, we have to make sure that we know exactly where the money is being spent in the Defense Department and not just ignore it because the dollars are so big. Even though we do not in Congress pretend to have the expertise that you do in the Defense Department because of our budgeting process it is essential that we look at all the dollars.

With that, I would like now to welcome the distinguished ranking member, Mrs. Thurman of Florida, for her opening remarks.

Mrs. THURMAN. Thank you, Mr. Chairman, and good morning to all of you as well. I thank the presiding chairman, Mr. Souder. I look forward to this morning's hearing.

As we will hear from the GAO, its study concluded that the Department of Defense has historically overstated its bulk fuel requirements. Bulk fuel is what the Department purchases to operate all aspects of our armed services: flying hours, steaming days, tank training miles and base operations.

The Department of Defense claims that it is impossible to accurately forecast fuel needs due to unforeseen global circumstances. However, the historical pattern clearly has emerged from the DOD regularly that this surplus of funds is intended to purchase bulk fuel. In turn, the DOD has reprogrammed the extra money for other activities within the Department without congressional approval. As we will also hear from one of our witnesses, the DOD also overestimates other budget activities, such as Operating Tempo and depot management.

The DOD does have congressional authority to move some of its funds, but I want to ensure that this is not a widespread practice because it is Congress' constitutional authority to appropriate the money that funds the Federal Government.

During the 104th Congress, funding for Defense has increased. The DOD's Operation and Maintenance Account, which funds our

armed services with the money necessary to carry out their daily operations, has also received a significant boost in this Congress. In fiscal year 1994, O&M was appropriated at approximately \$66 billion. For the current fiscal year, O&M received \$71 billion. These figures do not even represent the entire O&M funding because it is not a unified line item in the budget.

Mr. Chairman, one of the primary duties of this subcommittee is to conduct oversight of the Department of Defense. With such great sums of the taxpayers' money going to DOD, we have a great responsibility to ensure that those funds are not being wasted, that the DOD is not usurping Congress' authority to appropriate Federal dollars. This is an important question of accountability and methodology.

I want to thank all of our witnesses for coming. I look forward to their testimony to see if we have a problem and what possible solutions there are to make sure scarce resources are being allocated properly. Thank you.

Mr. SOUDER. I usually put any additional opening statements in the record. I welcome Mr. Cummings here this morning. With no objection, so ordered.

I would now like to invite our first panel to come forward. The panel is composed of representatives from the General Accounting Office and will provide us with an overview of the problem. Ms. Sharon Cekala is the Associate Director of Military Operations and Capabilities Issues within the GAO's National Security and International Affairs Division. She is accompanied by Mr. Michael Curro, who is the Assistant Director of Budget Issues.

We thank both of you for coming, and we swear in our witnesses in this hearing. If you can stand and raise your right hand.

[Witnesses sworn.]

Mr. SOUDER. Let the record show that the witnesses responded in the affirmative.

Mr. SOUDER. Miss Cekala, will you begin?

**STATEMENT OF SHARON A. CEKALA, ASSOCIATE DIRECTOR,
MILITARY OPERATIONS AND CAPABILITIES ISSUES, NA-
TIONAL SECURITY AND INTERNATIONAL AFFAIRS DIVISION,
GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY MI-
CHAEL J. CURRO, ASSISTANT DIRECTOR, BUDGET ISSUES
AREA**

Ms. CEKALA. Certainly.

Thank you, Mr. Chairman and members of the subcommittee, for inviting us to be here today. We appreciate the opportunity to actually discuss our work on the services budgeting for bulk fuel. The budgeting issues I will describe, however, as you have mentioned in your opening remarks, are very symptomatic of a larger budgeting issue relating to how the services estimate their requirements for O&M activities.

Our work has shown a recurring pattern of DOD estimating more than it obligates for some O&M activities. The O&M appropriation, as both of you have so succinctly pointed out, provides funds for the services to carry out their day-to-day operations, things ranking all the way from recruiting, training and filling our

forces, to maintaining the infrastructure that is there to support our forces, to civilian pay, to child care and family centers.

The services have a great deal of flexibility, as you pointed out, as to how they obligate those funds, and we recognize the need for that flexibility. We also recognize that amounts obligated will rarely agree with what is included in the budget estimates. That's because an estimate is just an estimate, we all know that, and the typing issue is certainly one of which we have to be aware of.

However, our analysis of certain O&M activities, as reported in our report, shows a pattern of estimated requirements being more than what is obligated in some cases, and in other O&M activities requirements are less than what is obligated. When these patterns consistently appear, a question should be raised as to whether the budget estimates accurately portray the services' real needs.

Bulk fuel happens to be one of those items of expense where we observed this pattern of estimated requirements being more than what the services obligate. The Defense Fuel Supply Center has the primary responsibility for providing the services with the fuel that they need. The services estimate their requirements, and therefore their budget requests, based on flying hours, steaming days, tank training miles and base operation needs. The services advise DFSC of their requirements, and DFSC also estimates how much the services will buy based on historical usage data.

In the budget submissions for fiscal year 1996, the services estimated their requirements for bulk fuel to be a little more than \$4 billion, and most of that fuel would, in fact, be bought from DFSC. We looked at that account at two different points in time, recognizing that things do change over time. We reported in our fiscal year 1996 O&M budget scrub last September that the services would need \$330 million less for bulk fuel than they had indicated in their budget request. This past March we also reported that the services would need \$440 million less than what they estimated in their budget request, and that was based on more current data available from DFSC at the time that we did our work.

Our analysis of the fiscal year 1997 budget request shows that the services continued to overestimate their needs for bulk fuel. Their actual budget request showed an estimated need amounting to about \$3.8 billion. In contrast, DFSC's estimates, which are current as of May 1996, show the services will buy about \$3.6 billion of fuel from DFSC. That \$130 million figure which was mentioned during the opening remarks is less than what the services had included in their budget request.

Now, it is important to note that the difference that we saw in fiscal year 1996 versus what we see in fiscal year 1997 is, in fact, a smaller absolute number. DOD, the services and DFSC have actually worked to ensure that their respective estimates are indeed more closely aligned. The Navy has changed the basis for its requirements from a 4-year average to a 3-year average. The Navy also recognizes changes in the deployment patterns of some of its ships, both of which had the effect of reducing the average use to reflect more current consumption and operating patterns.

But there is still that difference where we see an overestimation versus what we think the services will buy from DFSC, and we have identified similar patterns, as you both have mentioned, be-

tween the estimates in the services' budgets and ultimate obligations for other O&M activities.

A specific example, as was mentioned earlier, is OPTEMPO. We did report in April 1995 that about \$1.2 billion, or one-third of the fiscal year 1993 and 1994 funds that were designated for OPTEMPO for two of the major commands in the Army, was, in fact, used to fund other underfunded and unfunded activities. Such activities included base operations, which are often underfunded; real property maintenance, which is also underfunded; and contingency operations like in Somalia and Haiti, which are unfunded in the budget request.

The Army's use of those OPTEMPO funds for other O&M activities is an issue that we have reported on repeatedly in our annual O&M budget scrub reports.

The Army requests funds to operate its combat vehicles at a rate of 800 miles per year per vehicle to achieve a prescribed readiness level. However, since 1992, we have noted that the Army has consistently operated at a reduced rate, or at about 630 miles per vehicle per year in fiscal year 1995. In spite of that reduced operating rate, we do not observe any adverse effect on readiness levels.

Depot maintenance is yet another example of where funds requested are less than the funds obligated for that activity. In July 1995, we reported the services obligated about one half billion dollars less for depot maintenance in fiscal years 1993 and 1994 than the amount that they requested. The funds were obligated instead for military contingencies and other O&M activities, such as real property maintenance and again base operations.

These examples, both Operating Tempo and depot maintenance, are typical of and not unlike those that we reported last month. In that report we show that the estimated needs reflected in the Army's and the Air Force's budget requests for many O&M activities were often, but not always, overestimated for the 3-year period fiscal year 1993 through 1995, when we compared those budgets to the amount obligated. This pattern was particularly true for the Army, which obligated about \$900 million less for its combat units than it estimated it would need for the 3-year period. In contrast, the Army obligated about \$7 billion more than it estimated it would need for different infrastructure and management types of activities.

Now, it's important for me to point out that the categories that we used to do that analysis are, in fact, different than the categories that the services reflect in their budget requests, but we did devise our groupings based on criteria that has been used by the Institute for Defense Analyses, the Joint Chiefs of Staff, and the Program Analysis and Evaluation Division or Organization over in the Pentagon when they are doing some of their infrastructure studies.

In a final summary, we really need to recognize the need for flexibility. The services need that flexibility. There are unforeseen circumstances and changes in funding priorities, and the services do need that flexibility in obligating their O&M funds.

We know, as I mentioned earlier, the funds actually requested are hardly ever going to match what is obligated, and that's because estimates are just that, estimates. But we also believe that

there is a need for accurate and realistic budget estimating, and we feel that's an essential component of fiscal responsibility in identifying and fully understanding variations between estimated amounts and actual amounts. The recurring patterns among those variations can and will facilitate good decisionmaking and good budgetmaking.

At this point, I would be pleased to answer any questions that you and members of the subcommittee may have.

Mr. SOUDER. Thank you for your testimony.

[The prepared statement of Ms. Cekala follows:]

Mr. Chairman and Members of the Subcommittee:

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

My statement focuses on

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

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

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

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

THE O&M BUDGET AND WHAT IT PROVIDES FOR

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

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

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

DETERMINING BULK FUEL REQUIREMENTS

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

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

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

SERVICES OVERESTIMATE BULK FUEL NEEDS

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

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

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

Numbers in millions

Service	Estimated requirements in February 1995 budget submission		DFSC estimated sales as of February 1996		Difference	
	Barrels	Dollars	Barrels	Dollars	Barrels	Dollars
Army	10.5	\$316.9	7.5	\$236.2	3.0	\$80.7
Navy	46.5	1,461.2	39.3	1,236.6	7.2	224.6
Air Force	69.7	2,235.2	66.7	2,100.9	3.0	134.3
Total	126.7	\$4,013.3	113.5	\$3,573.7	13.2	\$439.6*

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

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

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

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

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

at a cost of about \$3.6 billion. Therefore, the difference between the services' budget estimates for fiscal year 1996 and DFSC's estimates had increased.

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

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

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

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

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

Numbers in millions

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

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

OVERESTIMATED REQUIREMENTS ARE NOT LIMITED TO BULK FUEL

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

We recognize that DOD has faced and will continue to face unplanned for contingencies that it will have to pay for by moving funds.

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

However, we have also noted that certain O&M activities are consistently overestimated, while others are consistently underestimated. For example:

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

The use of operating tempo funds for other O&M activities is an issue that we have repeatedly pointed out in our annual O&M budget reviews. The Army requests and receives funds to operate its combat vehicles at 800 miles per vehicle per year to achieve a prescribed readiness level. However, since fiscal year 1992, the Army has consistently operated at a reduced rate--about 630 miles per vehicle per year in fiscal year 1995--and obligates

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

the remaining operating tempo funds for other O&M activities. In spite of operating at a reduced rate, reported readiness levels have not suffered.

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

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

These examples are typical of what we recently reported on O&M funding trends. In our June 1996 report, we showed that the estimated needs reflected in the Army's and the Air Force's budget

requests for many O&M activities were often overestimated for fiscal years 1993-95 when compared to the amounts they obligated for those activities. This pattern was particularly true for the Army, which obligated less funds for its combat units than it estimated it would need and less than the amount provided in the conference reports to the appropriation acts for this activity. Conversely, the Army obligated more than it estimated it would need for infrastructure and management activities, again obligating more than cited in the conference reports.⁹

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

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

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

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

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

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

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

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

CONCLUSIONS

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

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

(703170)

Mr. SOUDER. Did Mr. Curro have any comments that he wanted to make at the beginning?

Mr. CURRO. No, Mr. Chairman.

Mr. SOUDER. Thanks.

The differences in the bulk fuel, you addressed some of that in what you just said; for example, changes in some of the naval operations and that type of thing. How much of the differential do you think was explained by that type of inestimable—things that they couldn't estimate; in other words, they were trying to get used to the new vehicles, what percentage?

Ms. CEKALA. We are talking about?

Mr. SOUDER. Bulk fuel.

Ms. CEKALA. The better estimate that we see this year as opposed to last year?

Mr. SOUDER. The differential is about \$330 million. How much of that is better accounting in the sense of their disciplining their accounting system to not having the transfer of funds as opposed to merely miscalculation based on new equipment in terms of downsizing?

Ms. CEKALA. I really couldn't give you an exact figure for any of that in terms of the analysis, but we did see—our basic foundation and premise of our analysis to begin with was the fact that the services' estimates weren't really approaching what DFSC was estimating they would sell to the services based on historical usage data. So we felt that the DFSC estimates were fairly reasonable and fairly stable in terms of what the services were likely to need over a period of time.

We see that the services have, in fact, this year, the Navy particularly, a much more realistic estimate that more closely approximates the DFSC estimate, which gives us a better assurance that it is more realistic. The fact that they did use—they used that change in terms of the 4-year average versus the 3-year average, and the fact that they were taking into account more current operating patterns gives us a better sense that it's more realistic and better approximates what the DFSC actually estimates that it will actually sell to the Navy.

Mr. SOUDER. Given the difficulty of projecting where outbreaks are going to occur around the world where we need to move forces rapidly, could you explain two things to me: One, is this—is it inherent—in other words, the past 3 years operating average may or may not be able to predict what's going to happen in the fourth year. Is there, in your opinion, enough flexibility—presumably there is some sort of a planning process because of the way the money flows—that they can have access to funds should there—should Congress, say, take 30 or 60 days to, you know, get the supplementary appropriations for something? Presumably there's some flexibility inside that system. How much flexibility do they plan?

Then second, from an accounting standpoint, some of us have been concerned also about everything from flood, tornado damage and storms that, unlike the private sector, which often will have contingency or bad debt reserves or other types of things for emergency. In the public sector, we don't seem to have funds that, for example, revert back if not expended, because the tendency of the

Federal Government is to think if you don't expend it, you can't request it the next year.

The reason I ask it that way is because the logical answer to the first question would be if you budgeted for emergencies and didn't use it, it would go back rather than be transferred. Do you know—and that way we would have enough flexibility for the armed services, but we would have an accurate budget process, and we won't hold the fact that they didn't spend it 1 year because we would be happy they didn't have battles and wars and troops out. Do you know of any cases where that occurs inside the Defense Department or really in any of your experience in Government budgeting where there are emergency funds that revert back and don't have to be expended?

Ms. CEKALA. I don't know the answer to that last question in terms of across the Government. Mike may have some sense of that, and then we'll go back to those other two questions that you have.

Mr. CURRO. In a general sense, the Congress has a variety of ways in which it can provide budget authority to the various departments. Let me deal with two that might address your question. I hope this does address the question.

In the case of DOD, they have a form of budget authority referred to as contract authority that allows them to enter into and incur obligations before appropriated resources are, in fact, available to them. That is a very specific case. It is called the Feed and Forage Act. It does allow them to meet contingencies given certain circumstances.

The other thing is, and I believe this is correct, I hope I'm not speaking out of school, on at least a couple of occasions that I can remember.

Mr. SOUDER. On something like this, if you decide to come back and amend a clarification for the factual record, that will be fine, too.

Mr. CURRO. I would like to do that. There are cases where budget authority is provided contingent upon certain certifications being made by the Secretary, and that occurs in other departments also.

In the specific case that you cited for this Department, I don't have specifics available, but I would be happy to provide that for the record.

Mr. SOUDER. Thank you.

Ms. CEKALA. But in terms of flexibility, that seems to be there. With the process, as Mike mentioned, there are a number of ways that we can finance those kinds of contingencies. Mike mentioned the Feed and Forage Act. There's certainly the possibility of having supplementals if needed, but that is disruptive to the budget execution process. We also have the opportunity for those sorts of costs to be absorbed within the current budget so that there is some flexibility. That flexibility is certainly allowed within the appropriation in the budget structure, and it does provide that avenue for funding those kinds of activities.

But there are, as Mike mentioned, other opportunities, other alternatives that could be done in order to do that. In terms of how it tracks the financial management system and the actual return-

ing of funds if they weren't used, I would not feel comfortable responding to that with any degree of accuracy.

Mr. SOUDER. When I was first elected, 2 years ago, approximately one of our first votes that I was not pleased with, nor were other freshmen who had campaigned to some degree questioning the wisdom of intervention in a number of places where we had our troops scattered around the world, we were forced to vote on supplemental funds to replace funds for Somalia, for Haiti and for Rwanda. One the things that were told to us in conference that I found very upsetting, as I've gone through these notes, was we were told that there were tank commanders who were not able to do their exercises because they didn't have enough fuel for their exercises and that they were walking some of the routines. We were told there was not enough fuel for some of our top gun units in San Diego to get up and do their practices.

How do I reconcile those arguments that were told to us to force us to vote for the supplemental with the fact that you're saying they transferred fuel funds?

Ms. CEKALA. It is difficult to reconcile. I can't speak to that specific situation, but the reporting that we have done over the years on readiness trends and certainly in the OPTEMPO report, with the Army's use of OPTEMPO funds in 1993 and 1994, we show there was obligation of funds that were for Operating Tempo for other activities. And in those cases, we did not notice in the units that we had actually reviewed any impact on their readiness rating as a result of not being able to train.

I cannot speak to the specific situation that you're mentioning with a particular top gun unit. The fact is some of the analysis that we have done with units we did look at, particularly the units when we did that OPTEMPO report on the Army funding, and we have continued to do some assessment of the readiness of units across the board. We have most recently looked at 94 units that we reported on earlier this year that we showed that the readiness levels were pretty much stable with or had achieved the readiness levels deemed necessary by the services.

You should understand, though, that there are different readiness levels that the services do require of their various units, but we have not observed any impact on their readiness as a result of not being able to train. What we typically see is that there are shortages of personnel or that there isn't specific skill level training, but unit level training, even though some of that training might not be done as planned, we do not see an impact on the readiness ratings of those units that we have specifically looked at.

Mr. SOUDER. We're working pretty informally, but with that I yield to Mrs. Thurman.

Mrs. THURMAN. I thank you, Mr. Chairman.

You actually have recommended that we will rescind about \$340 million of this year's bulk fuel budget and apply it to something called unfunded emerging requirements. Can you explain that and identify some of those for us?

Ms. CEKALA. Unfunded emerging requirements would be things like contingencies that we were talking about earlier, things that aren't planned, that aren't necessarily recurring, that just come up, and that we need to spend money for. That might be an oppor-

tunity to use those funds as opposed to asking for supplemental funds, as opposed to doing something like Mike mentioned, like the Feed and Forage Act, or having to absorb those needs, the cost of those needs, against the next year's operating funds that we're—that the Department is seeking to receive a budget at this point in time.

Mrs. THURMAN. So you actually wouldn't take those dollars away? You would kind of set them aside for these other activities or potential activities?

Ms. CEKALA. Yes.

Mrs. THURMAN. Do you believe that the congressional budget process grants the armed services too much flexibility in re-programming the funds?

Ms. CEKALA. Well, in the work that we've done, the issue of flexibility really hasn't been an issue. We have identified those variances. We haven't always looked behind those variances to see what the causes of those variances are, and those differences can occur for a whole host of reasons.

We talked about the timing issue. The fact is that the services submit their budgets very much in advance of the appropriations this year to the Department. The Department in turn submits that to OMB, and by the time the President's budget is submitted and the Congress is acting on those budgets, things do change over that time in terms of requirements.

There's also the issue of these unexpected activities that come up that need to be funded. There are also methodology questions that we have pointed out, say, in our OPTEMPO report, and certainly with bulk fuel we have some questions about the methodologies. But all those are pretty good and valid reasons, normal and to be expected.

Estimating is not a science, it's certainly an art. The fact is that we wouldn't expect those differences—we would expect those differences. So there is some flexibility. It's certainly prescribed and allowed by the appropriations process, but it's not so flexible that there aren't any controls that are exerted upon it. There certainly are reprogramming procedures that deal with any expenditures or obligations of funds for purposes other than which they are intended between budget activities.

Mrs. THURMAN. The \$20 million threshold?

Ms. CEKALA. That's the \$20 million threshold. But that is between budget activity, between things like operating forces and another budget activity, and we tend to be talking right here about the operating forces budget activity. But even within that operating forces budget activity, there are some limitations and restraints placed on movements of money within that budget activity.

The fiscal year 1995 conference report on the appropriations bill actually specifies some reporting requirements that the services have to make to the Defense authorizers and the appropriators in terms of moving things around even within that budget activity. And one specific example of that is depot maintenance. In cases where they are obligating more than \$20 million worth of funds for something other than depot maintenance, there is a requirement to notify different Defense committees on the hill. So there is flexibil-

ity, but there's also some sense of control, some limitations placed on that flexibility.

Mrs. THURMAN. Do you think it is widespread, I mean this whole practice of using money intended for one activity to go over to another area?

Ms. CEKALA. Well, we certainly haven't looked at all the program elements within O&M, all the line items of expense. We have done a broad brush view of just the Army's and the Air Force's accounts. We have identified those variances, but we haven't looked behind them. I couldn't even begin to quantify for you even the numbers within just the Army and the Air Force's budget. So, I couldn't really quantify that for you.

Mrs. THURMAN. Thank you.

Mr. SOUDER. Mr. Cummings, do you have some questions?

Mr. CUMMINGS. Just—listening to your testimony, I'm curious about a number of things. If I hear you right, you're saying that the Department of Defense arguments about flexibility at best are not—you just don't buy them.

Ms. CEKALA. That I don't buy them?

Mr. CUMMINGS. Yes, their arguments for why they did what they did. In other words, you don't agree with them.

Ms. CEKALA. Well, we haven't looked behind all of the reasons behind all of their variances in terms of specifically for bulk fuel.

Mr. CUMMINGS. That's what I'm talking about, the bulk fuel.

Ms. CEKALA. But we have looked. We did have some concerns, and we pointed out some issues that we had with the estimating process, but we have seen a change in the services in that they seem to be for fiscal year 1997 having estimates that are much more close to what DFCS says they will be selling to the services. And DFSC's estimate is based on historic usage, so that is a pretty good basis, at least one sound basis to be using in addition to adjustments that might need to be made for unexpected needs.

Mr. CUMMINGS. So if they were to continue to estimate on the basis of the DFSC, you would be satisfied?

Ms. CEKALA. Well, that's one basis that they could use that seems fairly realistic to us in terms of based on historical usage, but there would be other factors in terms of just more closely approximating what their current operations are. That's, in fact, what the Navy has done this year with revising their requirements development process and using a 4-year average versus a 3-year average. So it eliminates some of—maybe some unique aspects of the activity that occurred in 1990—4 years ago and seems to take into account the changed operating patterns of things like the military sealift ships. So it seems to be getting closer.

Mr. CUMMINGS. You're talking about this \$340 million, setting it aside. Tell me, what's the down side to not doing that, to not setting aside the \$340 million. I guess what I'm trying to do is point out that in the law we're always balancing things, and on the one hand you have the Department of Defense giving arguments that say they need the flexibility and what have you, and on the other hand you're saying that perhaps some \$340 million ought to be set aside for these unexpected priorities. I also think the Department of Defense, part of their argument at least, seems to be with regard to flexibility, unexpected priorities, too.

So I'm trying to figure out when we balance these things out, if we set that \$340 million aside, I'm going to put aside for the moment the—some of the statements of the chairman, which I thought were very excellent, with regard to the kind of problems we can run into. And that's what's leading me to this question. When we balance, are we balancing or are we gaining a lot by setting that \$340 million aside as opposed to problems that may occur that we may need it in emergencies? Do you understand my question?

Ms. CEKALA. In the bigger scheme of things, that \$340 million is certainly a small amount of money, and that is—the \$340 million that we reported in our March 1996 report, there is a possibility for rescinding those funds because we didn't see that the Department needed them for bulk fuel this year. But it could be made available for those other needs that could come up. It also could be used—let me back up a second.

The fact is that they could be made available. On a larger level we do see that operation and maintenance funding looks to be obligating—the services look to be obligating more, in fact, for O&M total than they actually have, but that involves some transfers, and it's not that they're really spending money that they don't have.

The fact is that there are a lot of needs within the O&M account, bulk fuel just happens to be one of them, so that there are a lot of needs within that account that even though we would identify some specific dollars associated with bulk fuel, you could either take that, have that money taken away, or you could actually apply it to those other priorities or—well, those are really the options.

The down side, I would suggest, of that—well, I'm not sure that I have a down side. It may be that there are other needs that will end up being requested that the services will request funds for fiscal year 1997 that if those moneys are not used for things that need to be taken care of in 1996, that those may become unfunded priorities or unfunded needs for fiscal year 1997. So I'm not sure that that's very responsive to your question.

Mr. CUMMINGS. You're doing pretty good, but let me give you one more question—

Ms. CEKALA. OK.

Mr. CUMMINGS [continuing]. So we can finish it up.

Ms. CEKALA. OK.

Mr. CUMMINGS. Have we had a history of that, the unfunded, the points that you just—the problem that you just stated, have we had a history of it? Certainly we had a history, based upon your testimony, of this overestimation, but have we had a history of those things not—those priorities, I guess would you call them, coming up and not being funded during that—let's say for the last 3 or 4 years?

Ms. CEKALA. I can't quantify that for you, but I think that you will see with the operation and maintenance account that we see that the services, the highest priority is on readiness needs, and so that we see with requirements that are determined by the Department, there is a higher priority in requesting funds for those readiness needs. There's a higher priority for Congress supporting their needs for those funds. But knowing that there's a limited pile of money to deal with or that the Department can expect to get, that

means that some other things like depot maintenance, and real property maintenance, and base support end up getting services—even ask less money for those things than they really think that they will need because they just know that there is this constrained set of resources that they have to work within.

So I would tend to suggest to you that the priorities are on readiness issues, and that's what we see requirements for in the budgets. There are other underfunded or unfunded activities within that budget that if extra funds become available from those other fully funded activities, then they can be used for those other activities that they don't have enough money for.

Mr. CUMMINGS. My last question is—and I guess in listening to you, I guess it is very difficult to pinpoint those things that might not be funded, mainly because of what you just said. It's just a person looks, I guess they look, whoever is looking at it, they look at this and say, well, we're going to get to these priorities. So we can't really define what those things are unless we went in somebody's head and said, look, what didn't you do, and assuming that they didn't do it because of what you just said.

Ms. CEKALA. We can show where the variances are, and we can do other work to show, analyze, what those causes are. But at this point, we don't see any; based on our readiness work, we don't see an adverse effect impacting the readiness of our troops as a result of those variations.

Mr. CUMMINGS. Thank you.

Mr. SOUDER. I'm going to ask some additional questions, and then if either of our other Members would like to, they are welcome to as well.

I also want to say that if you have the ability or the time to stay here today after the second panel, we may ask you to come back up to clarify a few questions from your perspective, or we may give you questions in writing. The goal here wasn't to have a debate today, but to try to clarify as best we can, just as an example on depot maintenance, a clear question, a kind of series of questions to try to get to a broader budgeting question.

In your opinion, in depot maintenance, have they consistently overbudgeted for that?

Ms. CEKALA. From the work that we have done in 1993 and 1994, we had seen that that was a problem where they're estimating more funds than they would eventually obligate. That has also been an issue in one of our recent O&M budget scrub reports as well.

Mr. SOUDER. Did—is it also not true that they—so their estimate was what they requested, and did we not even appropriate even more than they estimated?

Ms. CEKALA. They have asked for more money than they have obligated. I don't have the number handy in terms of what they actually received, but I think they may—we know that they received more than—I know for a fact that they did receive more than they had actually requested for depot maintenance. I'm sorry, that is a misstatement. I forgot.

Mr. SOUDER. And your impression is their request was more than they would normally obligate?

Ms. CEKALA. Right. So they, in fact, had more money available to them than they thought they would need.

Mr. SOUDER. I'm sure we'll ask them what in your opinion is the reason that that, something like that, would happen. Obviously there is some sort of disagreement going on here as to what the needs are, both inside the military—requests often are dictated down as opposed to up. Obviously there's different opinions in trying to estimate, and obviously different approaches. Somebody on the committee feels that they underrequested. But it's pretty confusing, based on what you just said, to say that you believe they overestimated their request, and then we spent more than their request.

Ms. CEKALA. It is very confusing in terms of the depot maintenance and the requirements generation process. We have shown through that analysis that we had a doubling of unscheduled maintenance that had been scheduled maintenance needs, which was reflected in their budget requests, received additional funds over and above that requested amount, but in fact obligated less than they had even had in their budget request. So that is the span, those are the actual facts that existed. Again, we don't have a clear sense as to the reason why there is that difference. But those then became funds that were obligated for other purposes.

Mr. SOUDER. Do you feel that they saved money on depot maintenance by sending equipment that is nonmission-capable to the Reserves and National Guard?

Ms. CEKALA. Did they save money by doing that?

Mr. SOUDER. Would it affect the budgeting process if they were moving equipment such as that?

Ms. CEKALA. I can't respond to that to say for sure.

Mr. SOUDER. Did they report regularly to Congress on transfers away from depot maintenance; is that a reporting process that goes to Congress during the fact, or is it in the annual report, or how is that?

Ms. CEKALA. It is prior to their moving of more than \$20 million out of the depot maintenance type of activity. And that was in the fiscal year 1995 conference report on the appropriation bill, specifically for Army and for the Navy, the services have to report.

Mr. SOUDER. Does it go to the Appropriations Subcommittee?

Ms. CEKALA. Appropriations and the authorization, the authorizers, the Defense subcommittees.

Mr. SOUDER. To the subcommittees?

Ms. CEKALA. Yes.

Mr. SOUDER. I want to ask you a couple questions on the categories because clearly—

Ms. CEKALA. OK.

Mr. SOUDER [continuing]. Part of the question here is how things are budgeted. And there—having been through many accounting courses in my life, I finally came to the conclusion that cost accounting is something manipulated by managers to decide where they want to put their cost centers, which was very valuable to go into the business world. Then once you realize that, the accounting system is a game people play. Yet when we're handling the people's money—and there's this tendency, I think it's one of old Parkin-

son's law, the bigger the expenditure, the less time you spend on it. But boy, we micromanage coffee budgets.

How in the world do we begin to unscramble and sort out the differences and get clear categories so that we can look at this? Obviously, you feel that your categories broken down into the ways you did that are better or at least would be more clear, from your perspective, in looking at general accounting. They have different categories. The big thing that I'm concerned about is do you believe that in their categories, that by definition, because they can move funds around, that there is enough fudge factor that we, in fact, can't trace it?

Ms. CEKALA. Well—

Mr. SOUDER. In other words, in arguing for more clear categories, is this just a semantical question to make it easier, or, in fact, do we have a problem that we can't look at the budget and figure out where things are moving? Because you can move a flex account of—as long as it is under \$20 million, you have a factor in here, and, in fact, what looks like a combat or a readiness or a training category can be diverted over into maintenance and different things that are not as easy to get through Congress.

Ms. CEKALA. Well, when we did that analysis recently, we came up with those categories, not necessarily for the intent of prescribing or suggesting a different or a better budgeting structure. We did look at it because we were trying to get a sense of the kinds of things that are often identified or described as readiness types of issues and trying to extract from those things that were really directly combat-related.

It's another way to look at the budget. It's a way that we looked at it, but it was a matter of analyzing various elements much below the level of the information that's presented to the Congress. It is information that would be available if someone was interested in looking at that, but at this point in time, I would suggest to you that the folks on the Hill get an awful lot of budget data that they can look at, that they can analyze, they can ask us to analyze, which we do on a regular basis. We did look at those accounts. We did devise those categories based on definitions and criteria I mentioned earlier that different activities within DOD had used to try to distinguish between infrastructure activities and combat-related activities.

So that's another way to look at it. It might be a supplementary way to look at the budget structure in addition to the way it currently is designed. But that is something—that structure is in place and has been designed, I believe, collectively on the part of the Hill and the Department.

So we were not suggesting a different budget structure. We looked at it a little different way, and regardless of how much data that you have, you can slice it at least 5, 10, 20 different ways, and we just opted to look at this one to maybe give people on the Hill, decisionmakers on the Hill, a different way of looking at the budget and looking at ways money is indeed being obligated by the Department.

Mr. SOUDER. Thank you. Mrs. Thurman, do you have any?

Mrs. THURMAN. I just have one question, and only because the \$340 million has kind of arisen out there.

If we were to place this into a contingency fund, what would be your recommendation on how we could assess—access that, and should there be accountability procedures, and what should be required with that? Should Congress be informed of the disbursement, or should we be consulted in the disbursement or change of these dollars?

Ms. CEKALA. I would not be comfortable responding to that at this point based on our work.

Mrs. THURMAN. OK.

Ms. CEKALA. But we certainly can try to provide you some information or reactions to that.

Mrs. THURMAN. That would be great.

Thank you.

Mr. SOUDER. I have just a couple additional questions. We are going through some of the—we spent quite a bit of time going through, and it's very—last week. It's very hard to go through the different detail level on this type of thing and have any idea of what you're trying to sort through.

DOD estimated that the Army obligates about 70 percent of its O&M budget to infrastructure, like base support and management. Why is that so and why?

Ms. CEKALA. Why is that so?

Mr. SOUDER. In other words, is it too high a percentage? Now, I'm also confused. The military construction budget—

Ms. CEKALA. That's different.

Mr. SOUDER. That's a whole separate budget. So this infrastructure is different from the military construction budget.

Ms. CEKALA. Definitely.

Mr. SOUDER. This is support infrastructure.

Ms. CEKALA. This is support infrastructure. This is headquarters type of activities that we are talking about in that grouping that we devised for infrastructure that relates to servicewide, headquarters, management types of activities. So that's very broadly the kinds of activities that are involved in that category that we devised.

Mr. SOUDER. It's—these type of things are tough questions, but I would like you to think about how we do a—in business, you test an organization by things such as what percent they have at this level management, this level management; how much operational support it takes. Now, in the military, that's a lot more complicated depending on the type of weapon, depending on the type of battle preparations. I understand that.

But the fear that many of us have, and there really aren't easy ways to address this, is that you can have a top-heavy structure when you make the changes like we have done in the military and not reorient your structure. On the other hand, it could be argued that the reason we have a top-heavy structure is we have to have a senior level of command and highly trained people which we supplement with a lot of our Reserves and Guard personnel in the way we are functioning.

These are core decisions that we can very easily make a mistake on, but if the general feeling is—and that's why a hearing like today is so important—from a lot of us is that there's padding in the budget instead of micromanaging and getting into the detail,

you just lop off sections. We already had that happen once this past year when I and a number of others who were on the hawk side of the defense equation joined with some who were on the budget side because we got so frustrated in some of the detail of the Defense budget that we didn't think we were getting straight answers. When we didn't think we were getting straight answers, the bill went down because it is a very frustrating process to try to sort through this because of the relationships that develop and different things.

There's a question of trust when we are under the budget pressure we are, and we need to have better ideas so we don't accidentally hurt our military capabilities, our ability to have a safe and free world. At the same time there has to be some kind of barometer as to how we do responsible downsizing from a budget standpoint, not affected by all—what everybody has in their district, what everybody has to protect over here. It's very frustrating under these budget pressures.

So if you can—if you can give some thought to how in the world we look at overhead questions as you are downsizing and not have—in fact, what we fear is that you leave the top level, and whenever the budget crunch comes, the organizational, the institutional thing that happens in any company in the private sector is to protect the management structure. Say if you are General Motors, the people who are making the decisions protect the headquarters but squeeze the line, and we've got to be careful that that doesn't happen in Defense because those kind of errors could be devastating to our Nation.

With that, I think we'll go to the second panel. I thank you for your testimony, and if we have additional questions, we'll get back to you. I know that there's going to be some questions over the shortages, not shortages, and some of the budget process. Thank you.

Ms. CEKALA. So will we do these for the record afterwards, or would you like us to stay?

Mr. SOUDER. If you can stay and let us see what develops, I will most likely do it as a written followup, but that way I can have the option if something major comes up that I want to ask.

Ms. CEKALA. Certainly.

Mr. SOUDER. I would now like to invite our second panel to come forward. This panel is composed of witnesses from the Department of Defense. Mr. Charles Harris is the Director of Operations and Personnel Directorate within the DOD Comptroller's Office. With him is Mr. Jeffrey Jones, Executive Director of Logistics Management at the Defense Logistics Agency.

If you both would rise.

[Witnesses sworn.]

Mr. SOUDER. Let the record show the witnesses responded in the affirmative.

Mr. Harris, who would like to go first?

Mr. JONES. Mr. Chairman, with your permission, I will go first.

Mr. SOUDER. Sure.

STATEMENTS OF CHARLES T. HARRIS, DIRECTOR, OPERATION AND PERSONNEL DIRECTORATE, UNDER SECRETARY OF DEFENSE, COMPTROLLER, DEPARTMENT OF DEFENSE; AND JEFFREY A. JONES, EXECUTIVE DIRECTOR, LOGISTICS MANAGEMENT, DEFENSE LOGISTICS AGENCY

Mr. JONES. Summarizing, and if I may, I'll ask that my remarks be entered into the record, the written testimony, and I won't go through that with you since you've already seen it, I believe.

Mr. SOUDER. Thank you.

Mr. JONES. Unless would you like me to do that.

As you said, Mr. Chairman, I'm Jeff Jones. I'm the Executive Director of Logistics Management at Defense Logistics Agency, the headquarters of which, Defense Fuel Supply Center, is a field activity. With me is Chuck Harris from USD, Comptroller, and we hope to be able to answer your questions here today.

Let me just summarize by saying that I represent the logistics element of the discussion. Our agency primarily is a readiness support agency, and our job is to be able to support the military services in all conditions, peace, war, contingencies, and to do that we have to be able to place contracts for fuel to support the military services that have the kind of flexibility that the GAO mentioned is necessary, given the uncertainties that we deal with on a daily basis.

There are several factors here that are at play in this discussion. One of them, of course, we've already discussed, is the factor of time. It takes a long time to submit a budget. It takes a long time to prepare a requirements forecast. It takes a long time to let a contract. All of these processes mitigate the certainty, or they actually work against certainty, and so, as I said, part of what we're dealing with is the fact that we can't predict precisely what we need when we need it with the lead times that we have to deal with in each of these processes.

When we let contracts for bulk fuel, the way we do that is we contract for a quantity which represents a range. Essentially what happens is when the military service consumes fuel that we provide them, we replenish that and place a delivery order with a contractor. That delivery order becomes an obligation against our funds, and when we take receipt of that fuel, we then pay the contractor under the terms of the contract.

What we do when we provide a contractor an estimate of requirements is just that, we provide them what we believe within 75 percent certainty the Government will, in fact, use, and generally speaking, on a contract-by-contract basis, we're very close to those estimates. As you can imagine, when we have contingencies, such as Operation Desert Storm, Rwanda and other types of emergencies, that changes the picture dramatically, and we sometimes have to put extra contracts in place, or we have to move requirements around in order to meet all of those military needs.

You mentioned in your opening remarks, Mr. Chairman, the need to be responsible, and we certainly agree with that. Our goal as custodians of public funds at DLA is to be able to meet the requirements of the military departments under all conditions with absolutely minimal amounts of waste, and certainly I think our record is pretty good on that account.

The numbers that I have looked at show that at least for this year, I think we're probably going to be within a 2 percent error from the forecast that we made versus what the services will actually consume. Last year it was also within 2 percent. Most years when we are under, it's a very small amount. And I understand that that's different from the budgeting process, but I only look at the requirements side of this issue.

In summary, I would just say that from our perspective, our job is to make sure that we never run out of fuel, that we have a ready force at all times, and that under any conditions we are there to provide that kind of support.

If there are any other questions I can answer, I'll be happy to do so. That concludes my opening statement. Thank you.

Mr. SOUDER. Thank you.

[The prepared statement of Mr. Jones follows:]

**STATEMENT OF MR. JEFFREY A. JONES
EXECUTIVE DIRECTOR, LOGISTICS MANAGEMENT
DEFENSE LOGISTICS AGENCY
JULY 30, 1996**

Good morning, Mr. Chairman and distinguished members of the Committee. My name is Jeffrey Jones, and I am the Executive Director for Logistics Management, Defense Logistics Agency. I am here today to speak to you about the Department's bulk petroleum program. I am accompanied by Mr. Chuck Harris of the Department's Office of the Comptroller. I ask that this written testimony be made part of the record.

First, I'd like to spend a few minutes giving you some background on the way the Defense Logistics Agency (DLA) receives its fuel requirements from the Military Services. I will use our FY 98/FY 99 upcoming budget submission as an example.

For the FY 98/FY 99 President's Budget Submission, which we are currently preparing, in January of this year the Defense Fuel Supply Center (DFSC) asked the Military Services to provide their estimated fuel requirements for those fiscal years. This request gave the Military Services a final opportunity to update their anticipated FY 97 fuel needs and provide their initial input for FY 98 and FY 99. As you can see, we are requesting initial input almost 24 months in advance and fine-tuning our FY 97 program with updated Military Service input as the year of program execution approaches. DLA continually reviews Military Service inputs for future year requirements against current year execution and mission changes which will impact our purchases.

DLA awards many multi-year contracts, and it is essential that we have the most accurate forecasts in order to establish the proper range of available supply in our contracting agreements with our commercial suppliers. We have done a very good job of properly forecasting in the past and have benefited from this practice with improved relationships with our contractors, while maintaining a very high degree of competition.

DFSC purchases fuel on a purchase program basis. The purchase programs are based upon DFSC's business areas:

- Bulk aviation and diesel fuels,
- Posts, Camps and Stations installation fuels,
- Into-plane and bunker fuels.

DFSC also buys natural gas and coal. Fuel is bought on an established time schedule which is based on the type of fuel an activity needs and the geographic location of the activity. DFSC writes annual or multi-year contracts, which constitute agreements to place orders for a minimum and maximum volume based upon requirement estimates submitted by the Military Services for each activity in the purchase program. These contracts do not coincide with the fiscal year.

An example will best explain the process. Andrews AFB here in the Washington, DC area is one of the activities supported by DFSC. Andrews provides jet fuel to aircraft which are based

there and to transient aircraft from other bases throughout the world. It also uses heating fuel, gasoline, and diesel fuel to support the mission of the base. The jet fuel is acquired by DFSC as part of its East and Gulf Coast Bulk Fuel purchase program. There are over 200 other Air Force bases, Naval Air Stations, and Army installations in the East and Gulf Coast purchase program which also require jet fuel. The performance period for these contracts begins on April 1 each year and ends on March 31.

Requirements estimates for FY 98 for Andrews' jet fuel requirements are received in two increments.:

- DFSC received requirements from the Air Force on July 1, 1996, for the period April 1, 1997 through March 31, 1998. The first half of Andrews' estimated FY 98 fuel requirements will be put on contract in March 1997.
- The second half of Andrews' estimated FY 98 requirements will be submitted by the Air Force in July 1997 and will be put on contract in March 1998.

Upon receipt of the Military Service requirements, DFSC analyzes the input and compares the projections with historic demand. The Military Services often provide us with information about changes in operating tempo which are planned for a given location or other changes which will affect fuel consumption, such as relocation of aircraft or base closure activity.

As I described above, DFSC contracts contain a range of quantities within which orders can be placed. Fuel is delivered against the contracts in response to delivery orders which call forward the quantities needed as the delivery period unfolds. In the case of Andrews AFB, fuel is consumed on the base and fuel is ordered by DFSC to replace the quantities as they are used. Their jet fuel currently is supplied by a large refinery in Texas. This contract covers Andrews and other activities in the mid-Atlantic region. After the order is placed, the fuel is moved via pipeline from Texas to Yorktown, Virginia, then by barge from Yorktown to a storage terminal in Anacostia, and from there it is moved by another pipeline to the base. The contract with the refiner covers more than just the quantity of fuel which is estimated to be needed at Andrews; it will supply many other activities in the mid-Atlantic region as well. In total, DFSC will only order and take delivery of the amount of fuel required to replenish stocks consumed by the activities at the locations served by DFSC's contracts.

Andrews' heating fuel, gasoline and diesel fuel requirements are part of an entirely separate purchase program. Contracts with local fuel vendors are written on a separate time schedule from the jet fuel contracts, but the basic logistics approach of indefinite quantity contracts which permit deliveries over a long period of time is employed for those requirements as well.

Mr. Chairman, this concludes my statement. I would be happy to take any questions.

Mr. SOUDER. Mr. Harris.

Mr. HARRIS. I did not prepare an opening statement, but in listening to the—some of the questions that were presented before, I thought I might just run through quick—three quick things to sort of give the DOD a perspective of some of the things that were discussed, and just from the standpoint of just understanding of the process that DOD goes through and how we view these things.

First of all, on the question of fuel, certainly we have two estimates that we are dealing with in the GAO report. One is the estimate that is made by the purchaser of the fuel, and of course they're updating their estimate as they go along in time and trying to get it as accurate as they can as time proceeds. The services, on the other hand, are preparing a budget a considerable lead time away, and once they prepare that budget and submit it actually to OSD, and then ultimately through the President to the Congress, they are sort of locked into that position. Of course, they continue to monitor things, too, and make adjustments as they go, but they've already formally made their presentation to Congress.

Now, they do not really budget for fuel in the sense that they look at what they spent on fuel last year and then project forward. Certainly DFSC does that as one of their data points.

But what the services do, they budget for flying hours, for steaming days, for training periods at the National Training Center, in the case of the Army, and what they look at is they look at their activity. They look at the force structure that they're going to have in that year, and then they have factors that they use that includes the total cost of operating those units. One of the elements in there is fuel. So that's basically how they construct the budget, and that's the basis on which they actually request dollars from the Congress.

Now, the—as an additional activity, they also go back and shred out the fuel part of all of that and aggregate it back to this OP26 report that GAO is looking at and comparing to the DFSC numbers, and it's a different process, and it's—and so there are going to always be some differences.

Let me just say that certainly in terms of facts, there's not a lot of disagreement in facts between what GAO has presented and anything that we might have found. But what we do believe, generally that we are going to be fairly accurate in our projections. In fact, the Navy, the GAO talked about the Navy, and the Navy has, I think—at least their latest estimate is that they'll be about \$50 million under their 1996 original estimate. So we'll see where that goes.

The other thing, the other question that came up was depot maintenance. Just to clear up why it is that Congress might have appropriated more money than we actually executed, the depot maintenance program is—we almost always have a backlog of requirements. We never, or very seldom, fund the total requirements, and that's because there's always some equipment that is sort of in transit or in process. So when we submitted our budget, we did not ask for the total requirement, and that's primarily a function of funds, just the availability of funds. There are some requirements, some of the depot maintenance things that need to be repaired, are more critical to us than others, so we try to look at those. Either those things that are low priority or those things that

we can slip for just a short period of time, we'll pick those things that aren't funded in 1 year will be picked up early normally in the next year. So there's almost always some backlog.

So in fairness to the committees, they were adding money to a known requirement, not to some, you know, not to a requirement that didn't exist.

The other thing that was brought up was contingencies, and certainly we have been struggling with how to deal with contingencies or the funding for contingencies and several ideas have come up. About 3 years ago, I think, we proposed a contingency fund. That was not approved. There has been some other ideas. This year the Senate appropriators have set up—at least in their mark have set aside a small amount of money for contingency funds. I guess a better way of saying it is they have set aside some money that is for ongoing contingencies, but they have put it into a separate pot rather than putting it into the services operations and maintenance account with the idea that that gives you more flexibility as things change, and you can have a better—it will be easier to parcel it out.

So there are some ideas floating around. I would be happy to answer any questions on that, and that certainly is one of our problems that's causing some of the—some of the things that GAO is finding is certainly being driven by contingency operations. That's all I wanted to say.

Mr. SOUDER. Thank you.

I would like to start with a couple questions on the depot maintenance. Let me start out with the estimate that comes in at the beginning of the year, as far as what is estimated to be used that's the foundation for the budget request. What you're saying is that is what is expected to be needed that year, not the backlog, or is some backlog? For example, let's take, pick a hypothetical year, the 1995 budget. Would the 1995 budget include what you said, that often the previous year is taken care of at the start of the next year; would that have any spillover in your budget request of backlog?

Mr. HARRIS. That's correct, we do. We carry forward that backlog that's—into the next year. So any backlog in 1 year, we carry over to the budget request. So theoretically the—what the 1997 budget would have shown, it would have shown—there would be a schedule in there that says: This is our total requirement. This is the amount that we propose to fund and that we are requesting in this budget, and this is the amounts that are unfunded for right now.

Mr. SOUDER. So to see if I have characterized this right, start with what your expenditures are expected to be that year, plus the estimated budget request. We have a certain amount of backlog to take care of in that, and then we, Congress, appropriated more, they in effect gave more to—covered more of the backlog.

Mr. HARRIS. That's correct. They were trying to get us to—their intent was that that backlog would be further reduced.

Mr. SOUDER. Has that in fact happened?

Mr. HARRIS. In 1995, it did not entirely happen. Some of the money was used—this might be a good time to back up and throw in another point of disagreement.

One of the things that happens in the appropriation process is Congress makes some reductions that are not specific. They will make across-the-board-type adjustments that are not aimed at any specific program. And so what we will do, and I think GAO alludes to that in their report, is that we have to allocate that reduction somewhere, and we almost always allocate some part of it to depot maintenance.

In some cases, some of those not very specific reductions are logically—should logically apply, some part of it, to depot maintenance. For instance, if it's a reduction against personnel or if we've got people that are working in the depots, then we would allocate some part of that reduction to depot maintenance. So our baseline is not consistent.

What GAO is using is what Congress says that they appropriated for depot maintenance. What we are using is after we've taken care of those undistributed reductions and sorted everything out, here is the program that we've got to work with, and so we're using that base. Against that baseline, we did use some of the congressional ebb, but not all of it, in 1995.

Mr. SOUDER. Let me ask you another question. When you said you didn't disagree with some of the facts, you had disagreements as to some of the meaning behind them and different things. In the depot maintenance, did you transfer funds out of depot maintenance to other categories?

Mr. HARRIS. In fiscal year 1995, the Army specifically transferred \$145 million from operation and maintenance, and specifically out of depot maintenance into the military pay account, and that was something that, of course, came to Congress, to the committees for approval. But yes, it was. Additionally, the Air Force did transfer some money out, as well.

Mr. SOUDER. When you say they went to the congressional committees, they just reported that they were about to do it, it didn't come through the full Congress; is that what you're saying?

Mr. HARRIS. It followed the normal—our normal reprogramming arrangements or agreements with the committees, and yes, it requires the approval of the four, each of the full committees—actually, now I'm not sure whether it requires the full Appropriations Committee or not.

Mr. SOUDER. Here is the frustration.

Mr. HARRIS. Anyway, yes, it does require the chairman of each of either the full committee or subcommittee to approve it.

Mr. SOUDER. Here is the frustration that we need to look at. I mean, we don't pretend that the full Congress to have any—no Member who is not on a subcommittee or a Member pretends to have the level of knowledge of somebody who has worked with the area for a long time, nor the knowledge of people who have been in the military a long time. There is a tendency for everybody to think that they can be Secretary of Defense and make all the decisions, and that's one—the way all the people in the military feel about us on Capitol Hill.

Our problem is in the reverse. When we are in a tight budget process, what in effect you just told me that is very frustrating, and we as the oversight committee have jurisdiction to try to look at this, is that you estimate what you're going to use, then there

is a backlog that you build in. Then because we wanted to do more of the backlog, we appropriated more money, all of this in the name of depot maintenance. Then what happened was because there were generic things in the budget, we took some of that money out. Then the subcommittees took more money out, moved it over to a pay category without the full Congress necessarily knowing that.

So the full Congress voted for depot maintenance, but we not only had one but two things that reduced that, which may or may not have been the best military decisions, but it makes the core fundamental basis that we're looking at in some of these categories is that it could be that inside Congress and outside Congress. The case can't be as effectively made, or at least it doesn't have the sizzle to back us on some arguments, that there is some attempt to disguise what's going on.

Now, do you see these things repeatedly happening, or was that 1995 an exceptional case in your opinion? And I'm not implying that there is deceit, because you followed everything like you're supposed to by law. It's just that it makes it hard for those of us who are voting for a budget to keep track when it's moving in several different ways, understanding that in a budget, this bill, we can't micromanage anything.

Mr. HARRIS. To respond to your question, I think that there is—as far as we know, everything is above board, and we're trying to do the best that we can.

Mr. SOUDER. And I want to make clear, nobody is accusing anybody of not following the law to the letter.

Mr. HARRIS. I think there are some things at play, though, that are causing some difficulties right now, and I think a lot of what GAO may be finding—and let me also say that I—you know, from our perspective, this is possibly the way we intend for to it work also. I'm not sure this is bad.

I think, you know that the question, just as an aside, the question on the \$320 million that GAO had suggested that we rescind, well, one, I think the question is—I think that's unnecessary. The money has been used, and it has been with the full light of day. It has been used against some things that everybody agrees has to be done. It has been used to do real property maintenance where we know we have some serious problems. It has been done to take care of contingency operations within the overall DOD budget. Certainly there is, you know, maybe disagreement on whether we should be doing those, but once we are committed to them, we have to support the troops. So I think that might be good.

But one of the things that may be driving some of these moves of money from one category to another is that things are tight right now. We have contingency operations cropping up. We are, up to this point, for the last few years, we had been absorbing those within the Department of Defense for the most part, either with rescissions or reprogrammings or zero sum supplementals. So we are looking for places to find money to do some of these other things, and that's part of what's going on with the commanders, I think.

Mr. SOUDER. Mrs. Thurman.

Mrs. THURMAN. Thank you.

Just for the record, and to go through some of this, can you explain for us exactly how the reprogramming process at the Defense

Fuel Supply Command works? For example, how much can be reprogrammed without notice? Is any notification required? And to whom do you provide any comprehensive or annual report on reprogrammings? And then I'd like to even go a step further and ask if there is—if this differs from any other components within DOD.

Mr. HARRIS. OK, I'll try. I'm not sure I'll—

Mrs. THURMAN. And, Mr. Harris, if you are uncomfortable with that, can you give to us in writing to try to clarify that for us?

Mr. HARRIS. That might be good for us also, because I may get some of the threshold wrong.

Mrs. THURMAN. I understand.

Mr. HARRIS. But let me back up from that question just a little bit to set the stage and say that the operation and maintenance account is, I think, unique within the Department. Certainly most of the other appropriations or titles have more restrictions on them than O&M does. The philosophy, certainly, in the operation and maintenance account is that we don't manage that account from the Pentagon. We essentially take those funds, and they are—or actually the services have their own, each of them, have their own O&M appropriation. They take those funds, and those funds are allocated to commanders in the field, and the commanders have both the responsibility and the flexibility to make certain judgments about how those funds are spent.

Certainly they are budgeted for a certain purpose. They submit for that purpose, we approve it for that purpose. But once they have the money, they have the prerogative to move those funds around. Over the years, the wisdom has been that that's the best way for it to be, that the commander on the ground better knows and needs that flexibility and that quick reaction to take care of things. So that's basically the way it works.

Now, there are some restrictions, though, and those are, first of all, we have—we have four of what we call budget activities that the operation and maintenance accounts are characterized into, and we—we must notify Congress if we are going to move more than \$20 million into any one of those four budget activities.

Additionally, and this is more recent, and GAO did allude to this also, is that the appropriations subcommittees, in their reports for the last, I guess, maybe 3 years, they have designated certain of the budget line items as special interest. One of them is depot maintenance in each of the services, and there are other mission-related or readiness-related-type line items that those we must notify the committees if we're going to move more than \$20 million out of those kinds of accounts.

So that's—that's the basic restrictions. There may be a few other special—special interest items where Congress has, you know, designated a specific program that might be of a specific interest item, but that would change from year to year. But that's the basic framework. So as long as we stay within those bounds, then we can move money.

Mrs. THURMAN. Mr. Harris, can you remember at any time where—when the threshold over \$20 million has ever been denied? Does Congress ever actually, through the chairmen, do they have

the opportunity to make a decision, yes or no, or is it just a reporting? And do we know of any time that might have happened?

Mr. HARRIS. They often will take exception to—I would say at least the majority of the time it's probably a reception—or an exception with the source of funds as opposed to what we're adding it to. Normally that would, I think, probably more often than not be the case.

But yes, they would often deny that, and they normally, if—well, often the \$20 million or more that's being moved, it very often is what the commander would feel is a must-fund-type thing. Either he's got a bill he's got to pay, or he's got something he feels he has to do. So the pressure becomes difficult for anyone to say no to those kind of circumstances.

Mrs. THURMAN. Sure.

Mr. HARRIS. But certainly there have been many cases where we would have to find a different source where Congress would say: Don't use that. Use some other source to fund it.

Mrs. THURMAN. And that might be based on whatever the priorities of the committee and the Congress has voted on, is that—

Mr. HARRIS. That's correct.

Mrs. THURMAN. Knowing that we've heard this report and that DFSC has, according to the report, has consistently overestimated the fuel needs, can you think of any other command with Defense Logistic Agency where this has routinely happened, overestimating?

Mr. HARRIS. Where we have a consistent problem of overestimating? Well, let me first say that I'm not sure that our perspective is that this is a persistent problem or a systemic problem.

Mrs. THURMAN. Right.

Mr. HARRIS. We feel like we've been pretty close over these 4 years, and when contingencies are included, we, in fact, were over those numbers in 2 of the 4 years.

But certainly one of the—it certainly is a real-world problem right now is the Army has for the last 2 or 3 years executed lower than we have budgeted in OPTEMPO. We think that that's a problem. The Army is working on it. They're trying to come up with a more comprehensive model for doing this. Part of the problem, and GAO also alluded to this, is they can't find any readiness—they're saying they can't find any readiness problems. Well, we think there might be some out there, but we generally agree with them that the Army is still a ready force, even though they haven't executed those programs.

The problem is that we don't think that the 800 miles that is used as the surrogate for the Army training is comprehensive. We think that it—there's more there than just that. If you don't drive the 800 miles, you may be doing other things, so that's what the Army is looking at. I think they're sticking to the 800 miles, but they're looking broader than that, saying, OK, what else are we doing here that's in our—that we do to be ready? We need to bring some of that in and get a more comprehensive model to make sure that we are budgeting this correctly. So they are working on it.

Mr. JONES. Mrs. Thurman, if I could add something?

Mrs. THURMAN. Sure.

Mr. JONES. I think the way you asked your question, it might be useful for me to clarify that the requirements that we're discussing here are the ones the military services compute. It is what they estimate they are going to expend for services and supplies that they would buy from Defense Logistics Agency. We don't compute those requirements in our agency, so just to make that point.

Mrs. THURMAN. OK. Kind of as a followup to the question before last, during your tenure at DOD, what has been your experience with requesting supplemental appropriations from Congress? Have we always responded quickly?

Mr. HARRIS. Depends on who is counting, I guess.

Mrs. THURMAN. I figured as much.

Mr. HARRIS. Well—

Mrs. THURMAN. It kind of goes back to Mr. Souder, who came here in the freshman year, and the first thing he was hit with—

Mr. HARRIS. Right. And certainly that is one of the issues. We have said, OK, one way to take care of contingency problems is to ask for a supplemental or reprogramming of funds. The problem with that is the time that it takes. If it's early in a fiscal year, if an event happens early in a fiscal year, we can usually work it. We've got enough money, we've got our total appropriation, we can usually push things down the road until we can work a reprogramming or a supplemental with the Congress.

If it happens late in the year, in July, August, which a lot of things seemed to have happened over the last few years in those months, then it does get difficult to have enough time to push a supplemental through.

So it depends on who you're asking, but sometimes the supplementals begin to—the approval of them begin to make the commanders out there very nervous, and sometimes they start taking actions that we would prefer that they didn't to hedge their bets. So it is a problem.

Mrs. THURMAN. You had mentioned that the Senate had looked at a contingency fund. Have they put requirements on that, or what kind of accountability have they mentioned in setting this up?

Mr. HARRIS. I am going—I probably should check, but what I—

Mrs. THURMAN. That's fine.

Mr. HARRIS. What I believe is it generally specifies which operations it can be used for, but I can get back to you on that.

Mrs. THURMAN. I'm curious in one issue here why we actually—why the services purchase some of their bulk fuel directly from commercial sources instead of the Defense Fuel Center. What is the rationale on that?

Mr. HARRIS. Mr. Jones, I guess actually—

Mrs. THURMAN. See, I needed to get you off the hook there for a minute.

Mr. Harris, you can get a drink of water now.

Mr. JONES. Mrs. Thurman, I think it's about 3 to 4 percent they buy commercially. To give you an example, the Air Force—the 89th Airlift Wing out of Andrews—flies officials of the Government all over the United States and the world. They fly into commercial airports. Those are commercial purchases. And that also happens in training. The Navy, of course, goes from port to port, and sometimes those are commercial ports, particularly with the military

Sealift Command. So those are the primary examples of commercial purchases.

There are also vehicles, of course, that purchase commercially on the road; the Army on convoys and so forth. That's the nature of the commercial purchases for the most part.

Mrs. THURMAN. You said that was about 4 percent?

Mr. JONES. It's a maximum of that. It's usually less.

Mrs. THURMAN. Thank you.

Mr. SOUDER. I wanted to followup with a couple questions about the—in the 1996 budget, I don't have the year—where the \$330 million less than requested for fuel comes out of \$3.7 billion. It was about—there was about \$330 million less estimated than spent. Do you disagree with that number?

Mr. HARRIS. You're talking about the fiscal year 1996 number?

Mr. SOUDER. Right, fiscal year.

Mr. HARRIS. Right. Certainly the two sets of numbers are accurate. One is the DFSC estimate that was made, I think, early in—

Mr. JONES. It was revised in February, and the latest I have is that about 119 million barrels at \$31.50 a barrel. I have to multiply that out. We are going to execute that within 1.6, 1.7 percent approximately.

Mr. HARRIS. The point I was leading to is that number is there and it was a point in time, and we also have our budget request that was also at a point in time, a much earlier point, and certainly those two—I agree that those two numbers are different. I'm not sure even at this point exactly what it is that we're going to execute once we are at the end of fiscal year 1996. I've talked to the Navy specifically yesterday, who has been trying to do some work on this.

And by the way, GAO—I think the Navy agrees that GAO did discover where they made an estimating error. There's two things here. I think one is we have a process that we go through and we come up with the best estimate that we can on that basis, and things then sometimes change. The other is the process: Did we make any mistakes as we went through the process?

I think the Navy now agrees that they did make a mistake in the 1996—in their tally of the 1996 numbers that GAO has looked at, and they revised their numbers by, I think, \$50 million downward.

Now, the Navy's only a piece of this number that we're talking about, and certainly the \$50 million is not the same number that GAO would still say is the difference. But I'm just saying that, yes, the Navy agrees that there was an error there, but they are still insistent that they are going to—once that error is corrected, that they are going to be on target. We'll have to see.

Mr. SOUDER. What about in fiscal year 1995, were there funds that were—were you in balance in fiscal year 1995?

Mr. HARRIS. As far as I know, those numbers are—those numbers are accurate in 1995. As far as I know, those are their actual numbers.

Mr. SOUDER. The reason I'm asking the question is that going back to my first vote on the supplemental that—and the concern that there wasn't adequate fuel dollars, and I understand your

point that some commanders might overreact in a fear that they were going to be short. Without pinning down and talking more theoretically, so I don't have to match dollar for dollar and get into detail, is what happens when there are special operations like Somalia, Rwanda or Haiti, or it could be any three countries in this process, that fuel estimates, in fact, exceed for those special operations what you had budgeted, therefore the training operations have less dollars, and that would be part of the argument why we were given the supplemental? And if, in fact, then, when we passed the supplemental, did it go back to the accounts that supposedly were down, or where did the supplemental go?

Mr. HARRIS. And you're right, I can't answer that entirely in specifics, but I do know that sort of the way things, I think, play out is that the—the services are—what they would normally do when you have a contingency operation is that they would probably pull back some money from one of the commands. They'd pull back some from USER in the case of the Army, and they may pull back some for SINCOM or wherever and say, OK, I'll try to give that back to you later, and then they'll take their money and they'll use it for whatever their costs are, their transportation costs to get to Haiti or whatever. And then as the supplemental works, they will attempt to replace that money.

Now, in actuality what sometimes happens, though, is the services, the commanders in the field, may pass certain training windows that it's hard to go back and recover. In some cases, especially this late in the year that this is happening, while all this turmoil is going on, the services may very well forego certain training they can't then go back and cover in that fiscal year. In those cases, the money may, in fact, not go back to training.

Mr. SOUDER. Is it true that in fiscal year 1995 the contingency spending quadrupled in the month of September, right before the end of the fiscal year?

Mr. HARRIS. Would you repeat that, please, sir?

Mr. SOUDER. That the contingency spending quadrupled in the month of September 1995 fiscal year ending October 1st? Do you know any reasons why that would have happened? And if you don't know, I would appreciate some sort of an explanation coming back, because I don't mean to drop a very difficult, very particular question, but that's important in the budgeting process because it is one of those red flags that any accountant looking at a budget sheet would look and say, why did this account quadruple in the last 30 days before the end of the fiscal year? Is there a rush to spend the unexpended amounts, or—and there may be reasons. That was a bit before we were advanced into Bosnia operations, but there could have been preparatory funds that would explain part of that. But that's one of the flags that you look for in a normal budgeting process.

Also, I don't recall hearing, and I would—you've given me as a Member a red flag that says, watch supplementary appropriations late in the year, because you're telling me that many of the things that we were hearing were needed in fact may have passed a window, which makes very much sense. Now, there may be other legitimate uses, and I'm not going to argue, and I think you made an eloquent case earlier that I can't—I don't have any basis and

don't have any real interest in making a charge that you've expended funds on things that weren't needed.

What we're more concerned with as legislators, our job on behalf of the American people is to be able to make some of those judgments, and if we don't have the information upon which to do it, it becomes problematic as to who is making what spending decisions. I understand that the Appropriations Committee is our delegated authority to do that, and you check with them and so on, but that's where the questions come.

Like you said, for example, bills were obligated on—over the \$20 million, and they came in and they didn't really have much choice to agree to that. You kind of go, "obligated in what sense?" I mean, hopefully there is enough of an understanding that before bills get obligated and we have to switch funds, that at least elected officials are participating in that process.

Mr. HARRIS. Right. To answer your question, I really can't. I'm not familiar with what you're referring to on the contingency costs late in fiscal year 1995, but I can certainly get back to you with an answer.

Mr. SOUDER. It's on the GAO, on page 16, and on contingency operation update on DOD's fiscal year 1995 costs. There is a chart that has the O&M monthly totals: 58 for June, 57 for July, 75 for September—excuse me, June is 58, July is 57, August is 75, and then September is 330. Then it goes back to 74.

When you see that, as a business major, and when I would do audits at different departments in our companies, you would look at that and say: Wait, I would like a little explanation.

Now, it may be, in fact, that people weren't concentrating because they were too busy in regular operations, realized this was money expended for a certain—doesn't mean that the money was not spent on wise things, but those just raise questions.

Mr. HARRIS. I understand the question. I'll get an answer.

Did I answer—I'm not sure if I answered the rest of your—

Mr. SOUDER. The other was I didn't really have a particular question. I was more expressing a concern.

You said that you've communicated to the Appropriations Committees, and it's something we'll just be trying as we go through these processes, try to sort out in how we can make sure as elected officials enough information is coming in so that we don't get in situations where we have no choice but these type situations.

Mr. HARRIS. One thing I might comment, if I could, in terms of supplementals being approved late in the year, I agree with you that that can be problematic. However, I would—what we would certainly prefer is to try to do one of two things: Either try to have supplementals, hopefully we can foresee them and request them sooner and get approval sooner so we don't have the problem with commanders having to forego really needed readiness training; or to come up with some type of mechanism that will allow us to do those things that we have to do if they do occur late in the year. Have some type of authority that we can work with the Congress to come up with something that's mutually agreeable under certain conditions that we could go ahead and expend funds for purposes that are necessary, that everyone agrees is necessary, and not sub-

ject the commanders to the potential of having to reduce their training in the last few months of the year.

Mr. SOUDER. Mrs. Thurman.

Mrs. THURMAN. Let me just make one comment here because I think it is something we have talked about, methodology, and we've talked about the estimate over a period of years and how you do that. But there was also an issue that was brought up in the report that talked about the fact that once you buy it and then you receive credits has also not been taken into account. You can either respond to that or just think about that as we move on, because I know there are some issues that we'll raise once you get that money back, it never really shows back up again.

Mr. HARRIS. As far as I've been able to find out, we have, in fact, accounted for the credits. Now, I know the Navy's been digging into this, but certainly the preliminary information that I have—that was certainly a legitimate question and we didn't know the answer when it was first asked by GAO. But my conversations with the Navy yesterday says, yes, we are accounting for the returns or the credits. So we don't think that's part of the disconnect.

Mrs. THURMAN. I'll be interested to get that back. I appreciate that.

Thank you. Thank all of you.

Mr. SOUDER. I thank you very much for your testimony today, and it has been helpful. I don't think we'll do a direct followup with GAO here, and rather, as we sort through some of this information, if both panels would be willing to respond if we have some additional questions because we're trying to sort as best we can.

Our biggest struggle and the Defense Department, it's a relatively new struggle, it's always been there to some degree, but as we downsize, you're starting to feel the budget pressures that many other Departments are feeling. As we look at some programs where some of the matters in discussion here are double their annual expenditures, and they're trying to figure out how they can get phone lines in, we want to make sure that we're treating everybody equally as much as possible in a Government, and the size of the Defense budget and the complications, national security concerns, the unknown risk factors make it hard to put similar standards on Defense.

At the same time, in the budgeting process, we have to, because with a shrinking pool of dollars proportionally with inflation, we have to make every dollar count as much as possible, understanding that in addition to combat readiness, if we don't have a military that's motivated and is not prepared, you can't all of a sudden face an enemy and go, whoops, we should have done this.

It's a little bit different than other categories, but we want to make sure that the budget leanness, the pressure is on all segments of our Government and not just on some segments of the Government, and need as much help as we can inside the military and awareness that those of us on both sides of the aisle are going to be as fair as possible.

Mrs. THURMAN. Mr. Chairman, just to add to that, I think that there have been some interesting conversations about some of these funds that as the Senate is doing. It certainly would be hopeful that because of this hearing and because we have the oversight re-

sponsibility, that some of us would like to hear about that, for both—either to make the argument on the floor one way or the other, whether we are opposed or for something, but also be there to help.

Because I certainly think all of us do not want to second-guess our commanders in the field as to what their needs are and how to keep the troops available and ready. I mean, I think that has been an issue that all of us have been very concerned about was the readiness, particularly with the downsizing. But I think that as in any kind of thing, as we do go through oversight, that it's not only ours to pound on people, but it's also to find out where we can make suggestions that then we can go home and answer to our public and to the public as well. And I think that is important because we are ultimately responsible to them and for them, and we would appreciate any of those conversations as well.

Mr. SOUDER. We know you are under tremendous political pressures, too. One thing I know in going through some of the budget, as one of the what should I say high-pressure freshmen, that we've been going through conference reports in all kinds of areas and looking to see whether certain projects are being funded in the conference committee Members' districts and pressures coming on certain agencies to do things for political purposes. We don't have dollars to expend on that anymore.

We need to make sure our military is armed and ready for whatever things come up and that our funds are spent wisely. We can't do the traditional type things that you do to kind of keep somebody happy over here and somebody happy over there because now we're all under the pressures of the budget.

With that I thank you very much, and our hearing stands adjourned.

[Whereupon, at 11:50 a.m., the subcommittee was adjourned.]

[Additional followup questions submitted for the hearing record follow:]

October 24, 1996

Ms. Sharon Cekala
 Associate Director
 National Security and International Affairs Division
 U.S. General Accounting Office
 441 G Street, N.W., Room 4910
 Washington, DC 20548

Dear Ms. Cekala:

Thank you once again for testifying before the Subcommittee on National Security, International Affairs and Criminal Justice on July 30, 1996, on "Department of Defense Bulk Fuel: Appropriations Vs. Usage." During the course of the hearing, several questions were raised that you preferred to answer in writing for the official hearing record or on which the Subcommittee requests clarification.

1. Please clarify the answer to Mr. Souder's question beginning on line 421, page 23, "How much flexibility do they (DoD) plan (for contingency operations)?" It continues on line 439 on page 23, "Do you know of any cases where that occurs inside the Defense Department, or really in any of your experience in government budgeting, where there are emergency funds that revert back (to the treasury) and don't have to be expended?" The pages from the transcript are attached.
2. Please answer Mrs. Thurman's question beginning on line 898 of page 42, "If we were to place this (\$340 million) into a contingency fund, what would be your recommendation on how we could access that, and should there be accountability procedures, and what should be required with that? And should Congress be informed of disbursement, or should we be consulted in the disbursement or change of these dollars?" The pages from the transcript are attached.

In addition, the Subcommittee is interested in GAO's answers to the following questions, which will also be made part of the official record.

1. The GAO estimated that the Army obligates about 70 percent of its O&M budget to infrastructure like base support and management activities. Why is it so high? Is that simply too high a percentage to devote to infrastructure?

2. The GAO noted that the four O&M budget activities specified by DoD do not provide a good guide for separating combat forces and training expenses from infrastructure expenses. In fact, when GAO did its own study, it broke down the O&M budget into four different categories (which are also used by the Joint Chiefs of Staff): combat forces and support of forces, training and recruiting, base support, and management command, and servicewide activities. Should DoD use these categories in submitting its budget?
3. The four O&M budget activities are broken down into subactivity groups, which are in turn broken down into program element codes. However, the program element codes, which are the actual specific categories of expenses, are not part of the DoD budget presentation to Congress. Should the budget presentation to Congress contain a greater level of depth and detail?
4. How can the Congress more accurately determine the DoD's budget requirements before authorizations and appropriations are made?
5. How can the Congress correct the problem of consistent overbudgeting within the O&M fund, while still allowing for the operational flexibility that is needed by the military?
6. Should DoD have a special contingency fund which is only available for contingencies, so that DoD does not rob its readiness or training funds to deal with contingencies? What kind of reserve or contingency funds already exist for this purpose?

Please return your answers to Andrew Richardson of the Subcommittee staff by November 14, 1996. If you have any questions, please contact Andrew Richardson, Professional Staff Member, at (202) 225-2577. Thank you for your assistance in this matter.

Sincerely,



William H. Zeff, Jr.

Chairman

Subcommittee on National Security,
International Affairs and Criminal Justice

Enclosures

cc: The Honorable Karen Thurman



United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division


October 31, 1996

Mr. Andrew G. Richardson
Professional Staff Member
Subcommittee on National Security,
International Affairs and Criminal Justice
Committee on Government Reform and Oversight
House of Representatives

Dear Mr. Richardson:

Attached are responses to the eight questions resulting from my July 30, 1996, testimony before the Subcommittee concerning budgeting for bulk fuel and other operation and maintenance activities. The responses are keyed to the questions asked by Mr. Souder, Ms. Thurman, and the Subcommittee, as a whole. If you have questions concerning the responses or would like additional information, please call me at (202) 512-5140.

Sincerely yours,



Sharon A. Cekala
Associate Director, Military Operations
and Capabilities Issues

RESPONSE TO QUESTIONS FROM THE SUBCOMMITTEE ON
NATIONAL SECURITY, INTERNATIONAL AFFAIRS, AND CRIMINAL JUSTICE,
HOUSE COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT
REGARDING GAO'S JULY 30, 1996, TESTIMONY ON BUDGETING FOR
BULK FUEL AND OTHER OPERATION AND MAINTENANCE ACTIVITIES

QUESTION FROM MR. SOUDER

How much flexibility do they (DOD) plan for contingency operations? Do you know of any cases where that occurs inside the Defense Department, or really in any of your experience in government budgeting, where there are emergency funds that revert back to the Treasury and don't have to be expended?

GAO Response

As a general rule, DOD does not budget for contingency operations. However, I need to qualify this general statement to put it in the proper context. First, for fiscal year 1997, DOD was allowed to budget for contingency operations that are ongoing (for example, Bosnia). Secondly, although not classified as a contingency reserve, per se, DOD and the services, often do not distribute all of the funds that are appropriated for operation and maintenance at the time the appropriation is received. The funds held back, referred to as a withhold, are reserved for "emerging requirements". As the budget year proceeds, the funds will be distributed to the commands based on need or "emerging requirements". Obviously, a contingency operation could be considered an "emerging requirement".

In response to the second part of the question, I would point out that the funds we discussed at the hearing are 1-year funds. Unless otherwise specifically authorized, obligation authority for 1-year funds not obligated at the end of the fiscal year expire. Other than discussed above, I am not aware of any cases where obligation authority for funds budgeted for "emergency" purposes

don't expire at the end of the fiscal year for which the funds were authorized and appropriated.

QUESTION FROM MS. THURMAN

If we were to place the \$340 million into a contingency fund, what would be your recommendation on how we could access that and should there be accountability procedures, and what should be required with that? Should Congress be informed of disbursement, or would we consult in the disbursement or change of these dollars?

GAO Response

If the \$340 million were placed in a contingency fund, I would imagine that the Congress would want to establish accountability procedures which would spell out the conditions under which the funds could be used. In other words, Congress would want to assure itself that the funds were only being used for the purposes for which the contingency fund was established. With regards to the notification process, Congress could require that DOD request approval from the committees of jurisdiction for the use of the funds for a specified purpose or Congress could require an after-the-fact notification. In the latter case, if the committees of jurisdiction do not agree that the funds were used for the purposes for which the fund was established, DOD would then have to absorb the expenditure from funds appropriated for current operations.

QUESTIONS FROM THE SUBCOMMITTEE

1. The GAO estimated that the Army obligates about 70 percent of its O&M budget to infrastructure like base support and management activities. Why is it so high? Is that simply too high a percentage to devote to infrastructure?

GAO Response

The purpose of our analysis to assess the percentage of O&M obligations related to infrastructure activities as compared to mission-related activities was not to form an opinion as to whether the infrastructure-related percentage was too high or too low. Instead, we were attempting to show the types of activities for which O&M funds are obligated. By just looking at the O&M accounts in the budget, it is not always clear what the funds are really used for. Therefore, by providing information at the subaccount or even lower level, decision makers can form their own opinion as to whether the infrastructure-related percentage is too high, too low, or about right.

2. The GAO noted that the four O&M budget activities specified by DOD do not provide a good guide for separating combat forces and training expenses from infrastructure expense. In fact, when GAO did its own study, it broke down the O&M budget into four different categories (which are also used by the Joint Chiefs of Staff): combat forces and support of forces, training and recruiting, base support, and management command, and servicewide activities. Should DOD use these categories in submitting its budget?

GAO Response

Our reason for categorizing the O&M obligations by the accounts shown in our report was not to suggest that the budget structure should be revamped. Instead, we were trying to display the obligations in a format that would help decision makers distinguish between obligations directly related to mission activities as opposed to infrastructure activities. As discussed at the hearing, the current structure does not always

provide such a delineation. Whether or not the budget structure should be changed depends on the type of information that Congress feels it needs to make its budget authorization and appropriation decisions.

3. The four O&M activities are broken down into subactivity groups, which are in turn broken down into program element codes. However, the program element codes, which are the actual specific categories of expenses, are not part of the DOD budget presentation to Congress. Should the budget presentation to Congress contain a greater level of depth and detail?

GAO Response

Again, the answer to this question depends on what Congress feels it needs to make informed decisions. If Congress is satisfied with the current level of detail shown in the budget request, then it may not be necessary to display the categories of expense by program element codes. However, if Congress desires information about what is actually included in the subactivity group level presentation shown in the budget request, then it may want to request DOD to provide budget request data at the program element code level. To do so would not necessarily require a change in the budget structure for presenting the budget request. Congress could merely require DOD to provide program element code level data for the particular O&M accounts that it may have a specific interest in.

4. How can Congress more accurately determine the DOD's budget requirements before authorizations and appropriations are made?

GAO Response

In our opinion, the best way to assess the adequacy of the services' requests for selected O&M accounts is to look at trend data that compares the relationship between the amount requested, the amount received, and the amount obligated. When recurring patterns emerge that indicate that the amount obligated is not in line with the amounts requested or received, there is a basis for questioning the budget request in terms of what accounts for the variances. For such an analysis to be meaningful, the data should be at a level of detail that gives a clear understanding of the purposes for which the funds are being requested and obligated.

5. How can the Congress correct the problem of consistent overbudgeting within the O&M fund, while still allowing for the operational flexibility that is needed by the military?

GAO Response

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

6. Should DOD have a special contingency fund which is only available for contingencies, so that DOD does not rob its readiness or training funds to deal with contingencies? What

kind of reserve or contingency funds already exist for this purpose?

GAO Response

As a general rule, we do not support the idea of DOD budgeting for or establishing a contingency fund for contingency operations. The current practice of DOD paying the cost of contingency operations out of current operating funds and then seeking a supplemental appropriation for the incremental costs incurred seems to be the most logical approach to the issue. We recognize that funding the cost of contingency operations out of current operating funds can cause disruption in training and other matters, particularly when the supplemental appropriation is received late in the fiscal year. However, the difficulty in estimating what amount should be in a contingency fund, even before a contingency operation is declared, can be even more problematic. Additionally, it should be remembered that DOD already has the authority, under the Feed and Forage Act, to obligate funds for contingency operations even in advance of receiving budget authority. Therefore, the need for a separate contingency fund is questionable.

We believe the best approach is for the services to submit their request for a supplemental appropriation as early as practical once a realistic basis for estimating the costs has been established so that Congress can act on the request. We believe that a combination of early submission of the request and early action on the request will go a long way toward reducing the adverse impact on current operations caused by paying for contingencies out of current operating funds.

October 25, 1996

Mr. Charles T. Harris
Director
Operations and Personnel
Office of the Under Secretary for Defense, Comptroller
1100 Defense Pentagon
Washington, DC 20301-1100

Dear Mr. Harris:

Thank you once again for testifying before the Subcommittee on National Security, International Affairs and Criminal Justice on July 30, 1996, on "Department of Defense Bulk Fuel: Appropriations Vs. Usage." During the course of the hearing, several questions were raised that you preferred to answer in writing for the official hearing record or on which the Subcommittee requests clarification.

1. Please clarify your response to Mr. Souder's question beginning line 1248 on page 57, "When you say they went to the congressional committees, they just reported that they were about to do it, it didn't come through the full Congress; is that what you're saying?" The pages from the transcript are attached.
2. Please clarify your statement beginning on line 1428 on page 64, "We feel like we've been pretty close over these four years, and when contingencies are included, we, in fact, were over those numbers in two of the four years." The pages from the transcript are attached. The GAO argues that in making this assertion, DoD failed to take into account 1) the supplementary appropriations which it had received from Congress and that 2) in predicting their fuel requirements, the services consider what they have purchased from DFSC in the past, but do not consider the fuel that they have returned for credit in the past, which is a substantial amount. In light of these two factors, do you still maintain that the DoD fuel budget was overexecuted two of the last four years?
3. Please answer Mrs. Thurman's question beginning on line 1491 on page 67, "You had mentioned that the Senate had looked at a contingency fund. Have they put requirements on that, or what kind of accountability have they mentioned in setting this up?" The pages from the transcript are attached. Furthermore, please respond to the idea that DoD

should have a special contingency fund which is only available for contingencies so that DoD does not rob its readiness or training funds to deal with contingencies. What kind of reserve or contingency funds already exist for this purpose?

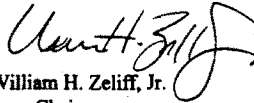
4. Please answer Mr. Souder's question beginning on line 1611 on page 71, "Is it true that in fiscal year '95 that the contingency spending quadrupled in the month of September, right before the end of the fiscal year?" The pages from the transcript are attached.

In addition, the Subcommittee is interested in DoD's answers to the following questions, which will also be made part of the official record.

1. Please discuss any changes which have been made in the methodology used by the services to predict their bulk fuel requirements.
2. Please discuss any changes which should be made in the methodology used by the services to predict their bulk fuel requirements.
3. How promptly and efficiently does Congress get DoD the supplementary appropriations it needs for contingency operations? Please give specific examples from the past four years.

Please return your answers to Andrew Richardson of the Subcommittee staff by November 15, 1996. If you have any questions, please contact Andrew Richardson, Professional Staff Member, at (202) 225-2577. Thank you for your assistance in this matter.

Sincerely,



William H. Zeff, Jr.
Chairman

Subcommittee on National Security,
International Affairs and Criminal Justice

Enclosures

cc: The Honorable Karen Thurman

Question 1. Please clarify your response to Mr. Souder's question beginning line 1248 on page 57, "When you say they went to the congressional committees, they just reported that they were about to do it, it didn't come through the full Congress; is that what you're saying?"

Answer 1. The DOD Appropriations Act as passed by Congress contains provisions allowing the Department to reprogram resources between appropriations (transfer authority). By mutual agreement, and as a courtesy in keeping with the spirit of keeping Congress informed of our actions, the Department provides these reprogramming requests to all four defense committees for approval or rejection when the purpose of reprogramming is to use appropriated funds for purposes different than for which they were appropriated. The full Congress is not required to participate in these reprogramming decisions. However, this does not preclude a member of Congress from discussing items of concern with the applicable defense committee when a reprogramming request is under consideration. A rejection by any one of these committees can stop and has occasionally stopped reprogrammings from proceeding.

Question 2. Please clarify your statement beginning on line 1428 page 64, "We feel like we've been pretty close over these four years, and when contingencies are included, we, in fact, were over those numbers in two of the four years." The pages from the transcript are attached. The GAO argues that in making this assertion, DOD failed to take into account 1) the supplementary appropriations which it had received from Congress and that 2) in predicting their fuel requirements, the services consider what they have purchased from DFSC in the past, but do not consider the fuel that they have returned for credit in the past, which is a substantial amount. In light of these two factors, do you still maintain that the fuel budget was overexecuted two of the last four years?

Answer 2. Yes. The revolving fund has exceeded its planned execution in now three of the past five years.

With changes in execution and contingencies, funds appropriated for the purchase of fuel are much harder to track. Moreover, while most contingencies that increase requirements receive supplemental appropriations, some do not, thereby requiring the Department to reprioritize its programs and realign funding internally to meet its highest priority commitments. Additionally, while a majority of fuel purchases are funded with operation and maintenance funds, the fuel program involves all the Department's appropriations that may use fuel.

Question 3. Please answer Mrs. Thurman's question beginning on line 1491 on page 67, "You had mentioned that the Senate had looked at a contingency fund. Have you put requirements on that, or what kind of accountability have they mentioned in setting this up?" The pages from the

transcript are attached. Furthermore, please respond to the idea that DOD should have a special contingency fund which is only available for contingencies so that DOD does not rob its readiness or training funds to deal with contingencies. What kind of reserve or contingency funds already exist for this purpose?

Answer 3. For FY 1997, the Congress appropriated \$1.14 billion to a new Contingency Operations Transfer Fund for expenses directly related to overseas contingency operations by the US military forces. These funds can only be transferred to operations and maintenance accounts. It should be noted that the funds in this new account specifically support known contingent requirements and represent a specific programmatic purpose (e.g., Bosnia operations). None of the funds in this account represent a "reserve" or are intended for some future unknown requirement that has yet to arise. The Department believes the transfer account will provide needed flexibility to meet these known contingency operation requirements if the method in which they are conducted needs to change while still fulfilling the intended mission (e.g., use of more Air Force flying support and less Army ground troop presence). This will allow the Department to support these changing internal requirements during the year of execution on a more timely basis and with less potential negative impact on our readiness and training accounts than has been experienced in the past. Of course, this assumes the transfer account is adequately funded to cover contingency related requirements. To the extent requirements during the year of execution exceed availability of funds in the transfer account, the Department will be forced to request additional relief from the Congress via Supplemental requests or reprogramming actions as in the past.

Question 4. Please answer Mr. Souder's question beginning on line 1611 on page 71, "Is it true that in fiscal year '95 that the contingency spending quadrupled in the month of September, right before the end of the fiscal year?". The pages from the transcript are attached.

Answer 4. The GAO Report "CONTINGENCY OPERATIONS: Update on DOD's Fiscal Year 1995 Cost and Funding," dated June 1996 reported September O&M incremental costs of \$330 million as compared to \$75 million for the month of August. The report further explains the reasons for the surge in reported costs in September as attributable to: accounting adjustments (approximately \$92 million) to correct errors and omissions; end-of-year payments (approximately \$82 million) for costs already incurred by contractors; and higher OPTEMPO costs (approximately \$118 million) attributable to the bombing campaign in Bosnia and increased support for Jordan.

Question 5. Please discuss any changes which have been made in the methodology used by the services to predict their bulk fuel requirements.

Answer 5. DOD uses a decentralized, requirement based process to determine operating and training requirements for fuel, but also compares these results to the experience based model projections made by the DFSC. Although the methodology has not changed, we are always looking for ways to improve the process. We recently reviewed the credit return question, in part based on GAO inquiries. It seems probable that not all credits for fuel returns from tankers are being properly accounted for where tankers return partially full from refilling missions. We are investigating this and will develop appropriate procedures as necessary.

Question 6. Please discuss any changes which should be made in the methodology used by the services to predict their bulk fuel requirements.

Answer 6. Before answering your question, let me provide information on actual fuel usage in FY 1996. Actual data on the FY 1996 fuel program is now available. A prediction of lower fuel usage was the basis for GAO's report. Actual FY 1996 fuel consumption totaled 120.1 million barrels in net sales (126.3 million barrels in gross sales). This is greater than GAO's prediction of 113.5 million barrels.

The Department believes that the basic methodology used to project operational requirements, to include associated fuel costs, is sound. Invariably, changing circumstances and unforeseen events will cause the Department to "miss the mark". We agree with the need to review the process continuously and to improve our estimating techniques whenever possible, but discern no systemic failing in the approach.

Question 7. How promptly and efficiently does Congress get DOD the supplementary appropriations it needs for contingency operations? Please give specific examples from the past four years.

Answer 7: The Congress has been very supportive of the Department's supplemental funding requests and has usually appropriated the necessary funds to finance contingency operations in a timely manner. Contingency operations funds have been provided either in separate supplemental appropriations bills or included in the annual appropriations bills. The following chart reflects the Department's supplemental funding for the past several years:

Fiscal Year	Purpose	Date of Request	Enacted	PL
1993	Kurdish Relief	6/7/93	7/2/93	103-50
1994	Somalia, SW Asia	1/26/94	2/12/94	103-211
1995	Haiti, Cuba, Rwanda	7/29/94	9/30/94	103-335
1995	Haiti, SW Asia, Smlia.	2/6/95 w/budget	4/10/95	104-6
1996	Bosnia	2/21/96	4/26/96	104-134