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United States Government Accountability Office
Washington, DC 20548

April 15, 2008

Congressional Committees

Subject: Defense Management: Observations on DOD's FY 2009 Budget Request for Corrosion Prevention and Control

This letter formally transmits the attached briefing in response to section 371 of the National Defense Authorization Act for Fiscal Year 2008 (see encl. I). The act requires GAO to provide an analysis of DOD's budget submission for corrosion control and prevention and a DOD report that was to be submitted with defense budget materials to the congressional defense committees within 60 days after submission of the budget for a fiscal year. On April 3, 2008, we provided the briefing to staff of your committees to satisfy the mandate and 60-day reporting requirement.

We are sending copies of this letter to the appropriate congressional committees. We are also sending copies to the Secretary of Defense; the Deputy Secretary of Defense; the Under Secretary of Defense (Comptroller); the Under Secretary of Defense (Acquisition, Technology, and Logistics); the Secretaries of the Army, Navy, and Air Force; and the Commandant of the Marine Corps. This letter will also be available at no charge on our Web site at <http://www.gao.gov>. Should you or your staff have any questions concerning this report, please contact me at (202) 512-8365 or solisw@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report were Tom Gosling, Assistant Director, and Allen Westheimer.

William M. Solis
Director, Defense Capabilities and Management

List of Congressional Committees

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Chairman
The Honorable John McCain
Ranking Member
Committee on Armed Services
United States Senate

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

The Honorable Ike Skelton
Chairman
The Honorable Duncan L. Hunter
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Committee on Armed Services
House of Representatives

The Honorable John P. Murtha
Chairman
The Honorable C.W. Bill Young
Ranking Member
Subcommittee on Defense
Committee on Appropriations
House of Representatives



Observations on DOD's FY 2009 Budget Request for Corrosion Prevention and Control

**Briefing for Congressional Defense Committees
April 3, 2008**

Section 371 of the National Defense Authorization Act for Fiscal Year 2008*

- Requires the Secretary of Defense, for each budget for a fiscal year beginning with FY09, to submit, with defense budget materials, a report on
 - Funding requirements for DOD's long-term corrosion prevention and control strategy.
 - Return on investment that would be achieved by implementing this strategy.
 - Funds requested in the budget compared with funding requirements.
 - An explanation if requirements are not fully funded in the budget.
- Requires GAO to provide an analysis of DOD's budget submission for corrosion control and prevention and an analysis of the report described above to the congressional defense committees within 60 days after submission of the budget for a fiscal year.

*Pub. L. No. 110-181, §371 (2008) amended 10 U.S.C. §2228 to include, among other things, the reporting requirements for the Secretary of Defense and the Comptroller General.

Engagement Objectives

In response to the mandate, GAO

1. Analyzed DOD's fiscal year 2009 budget request for OSD's Corrosion Prevention and Control Program Element (CPC PE).
2. Compared the budget request with requirements and analyzed the projected return on investment (ROI) for funded and unfunded requirements.
3. Obtained information on DOD's process for developing its CPC PE budget submission.

This briefing is intended to satisfy the mandate to review DOD's FY09 budget request for corrosion prevention and control.

Scope and Methodology

- Scope -- DOD's fiscal year 2009 budget submission and requirements for the CPC PE.
 - Methodology -- Analyzed DOD budget and requirements data, as well as corrosion strategy documents. We calculated the potential ROI for DOD's funded and unfunded FY09 requirements based on DOD validated requirements data and overall ROI averages. Interviewed officials at the Under Secretary of Defense (Comptroller) and the Corrosion Policy and Oversight Office, within the Under Secretary of Defense for Acquisition, Technology, and Logistics (USD/ATL).
 - Limitations/data reliability -- **DOD had not yet submitted its required corrosion report.** Also, we did not independently validate DOD's CPC requirements or projected ROI.
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Generally Accepted Government Auditing Standards (GAGAS) Statement

We conducted this performance audit from February 2008 to April 2008 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Obj. 1: DOD's FY09 Budget Request for CPC PE

President's FY09 budget request includes about \$14.1 million for the CPC PE. This amount excludes any funding that the military services may contribute.

CPC PE Funding (FY 2006-2009)

Dollars in millions

| | FY06 (estimated) | FY07 (estimated) | FY08 (estimated) | FY09 (requested) |
|-------|---------------------|---------------------|---------------------|---------------------|
| O&M | \$8.136 | \$7.346 | \$7.869 | \$8.962 |
| RDT&E | 7.402 | 7.124 | 18.917 | 5.102 |
| Total | \$15.538 | \$14.460 | \$26.786 | \$14.064 |

Obj. 1: DOD's FY09 Budget Request for CPC PE (Con't)

- According to data provided by OSD, of the \$14.1 million requested for FY09, about \$10.7 million is expected to fund corrosion projects. The remaining \$3.4 million is expected to fund corrosion activities.
 - While DOD will not make final selections of CPC projects until summer 2008, examples of potential projects include:
 - Air Force temporary corrosion barrier coatings
 - Army primer and topcoat powder coatings
 - Navy ultra high solids shipboard coatings
 - Army non-metallic cooling towers
 - Activities may include such things as cost studies, development of a corrosion guidebook for acquisition programs, and training.
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Obj. 1: DOD's FY09 Budget Request for CPC PE (Con't)

In addition to the CPC PE funding provided by OSD, the military services provided an average of about \$8.5 million for corrosion projects per year for FY06-08.

Military Service Contributions for CPC PE Projects (FY06-08)

Dollars in millions

| | FY06 | FY07 | FY08 | 3-Year Average |
|-----------|-------|-------|-------|----------------|
| Army | \$5.4 | \$5.0 | \$4.9 | \$5.1 |
| Navy | 2.4 | 2.3 | 2.7 | 2.5 |
| Air Force | 1.6 | 1.2 | 0.1 | 1.0 |
| Total | \$9.4 | \$8.5 | \$7.7 | \$8.5 |

Obj. 2: CPC Requirements and ROI

- Corrosion office updates and validates requirements annually. The office submitted FY09 requirements to USD/ATL in December 2007.
 - DOD validated total CPC PE requirements of \$33.8 million for FY09. This amount includes \$28.5 million for projects and \$5.3 million for activities.
 - As part of the project selection process, DOD requires that an “ROI” cost-benefit analysis be submitted with project plans. Projects costs are to consist of the up-front investment cost and annual operating and support costs. Benefits are to consist of annual savings or cost avoidance over the useful life of the project. As of June 2007, the ROI calculations are required to use a net present value approach.
 - ROI varies by individual project and activity and may span several years. Based on historical averages for FY05-08, DOD calculates an overall ROI of 40-1 for projects and 2-1 for activities.
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Obj. 2: CPC Requirements and ROI (Cont.)

Using DOD requirements data and overall ROI averages,* we calculate that:

- FY09 budget request, if approved, would result in a total ROI of \$435 million.
- If all FY09 validated requirements were funded, the total ROI would be \$1.15 billion.
- Therefore, the total ROI for unfunded requirements—that is, projects and activities not included in the budget request—is \$715 million (\$1.15 billion minus \$0.435 billion)

* We did not validate DOD's overall ROI averages. We noted that until last year, DOD allowed the submission of project plans to include ROI calculations that did not use a net present value approach in their ROI calculations. Using this approach would inflate the ROI since the time-value of costs and savings are not considered. However, DOD corrosion officials told us that less than 5% of the projects did not use the net present value ROI approach.

Obj. 3: Process for Developing CPC PE Budget

- According to USD/ATL, global commitments, constrained budgets, and competing requirements preclude fully funding CPC requirements.
 - 2006 Program Objective Memorandum (POM) cycle included about \$14 million for the CPC PE in FY09. This funding level was set with the expectation that the services would provide more CPC funding in their budgets.
 - Corrosion officials told us they submitted a \$14.1 million budget request in accordance with USD/ATL guidance capping FY09 funding requests at POM levels.
 - Comptroller officials told us that while program offices may consider ROI benefits in developing budget submissions, requirements for systems and services, rather than ROI, drive funding levels in DOD's annual budget request.
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Agency Views

To obtain agency views, we discussed a draft of this briefing with officials from the Corrosion Policy and Oversight Office.

They concurred with the facts presented. On the basis of their comments and supporting documentation they provided, we modified the briefing regarding their revised methodology for calculating ROI.

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