



Testimony

Before the Subcommittee on Defense,
Committee on Appropriations, House of
Representatives

For Release on Delivery
Expected at 9:30 a.m. ET
Wednesday, February 24, 2021

DEFENSE BUDGET

Opportunities Exist to Improve DOD's Management of Defense Spending

Statement of Elizabeth A. Field, Director,
Defense Capabilities and Management

GAO@100 Highlights

Highlights of [GAO-21-415T](#), a testimony before the Subcommittee on Defense, Committee on Appropriations, House of Representatives

Why GAO Did This Study

Decisions by DOD and Congress regarding long-term defense needs will have a meaningful impact on the nation's fiscal future. As the single largest category of discretionary spending, defense spending is likely to play a large role in any discussion of future federal spending. GAO and others have found that DOD faces challenges that are likely to put pressure on its budget moving forward. DOD is the only major federal agency that has been unable to receive a clean audit opinion on its financial statements.

This testimony provides information on how DOD can better manage defense spending, specifically related to its ability to (1) accurately estimate its budgetary requirements and execute its appropriated funds, (2) determine resource requirements related to overseas contingency operations, (3) reduce improper payments, and (4) sustain and refine department-wide reform efforts. For this testimony, GAO reviewed and summarized its recent work on DOD budget and financial management issues and departmental reform efforts.

What GAO Recommends

In prior work on which this testimony is based, GAO made recommendations that DOD take steps to better estimate its annual budget requirements and future fiscal needs for OCO, reduce improper payments, and refine and formalize its departmental reform efforts. DOD generally concurred with these recommendations and is working toward implementing them.

View [GAO-21-415T](#). For more information, contact Elizabeth A. Field at (202) 512-2775 or field1@gao.gov.

February 24, 2021

DEFENSE BUDGET

Opportunities Exist to Improve DOD's Management of Defense Spending

What GAO Found

GAO's previous work has shown that a number of opportunities exist for the Department of Defense (DOD) to strengthen management of defense spending, which would help the department address the challenges it faces, especially in a constrained budget environment. These opportunities include:

Improving budgeting execution of funds. DOD does not fully obligate the funds appropriated to it and can improve both its budgeting for and its use of the resources that are provided to it. For example, GAO found that DOD has left billions of dollars in appropriated amounts unspent over the past 10 fiscal years. Better estimating annual budget requirements and obligating appropriations provided by Congress within the period of availability established by Congress would help DOD minimize these cases of under-execution.

More clearly determining future resource requirements related to overseas contingency operations. DOD and Congress need a clearer determination of DOD's future resource requirements, in particular how and whether to incorporate enduring Overseas Contingency Operations (OCO) costs—costs that will endure beyond ongoing contingency operations—into DOD's base budget. These costs could total tens of billions of dollars a year. However, few details exist as to what makes up these enduring costs or how they were derived, raising questions about how much should be included as future requirements.

Reducing improper payments. Addressing improper payments—payments that should not have been made or were made in an incorrect amount—is an area where better financial management could save DOD billions of dollars. In its fiscal year 2020 agency financial report, DOD estimated that it paid about \$11.4 billion in improper payments, or about 1.7 percent of all payments it made that year. DOD has taken steps to reduce improper payments in some areas, but DOD's estimates of its improper payments in other areas indicate more remains to be done.

Sustaining and refining department-wide business reform efforts. DOD must transform its overall business operations so that it can more efficiently and effectively use its resources. In recent years, DOD reported notable achievements from its most recent department-wide business reform efforts, including \$37 billion in savings from fiscal years 2017 to 2021 as a result of these efforts. However, GAO previously found that while DOD's reported savings were largely reflected in its budget materials, the analyses underlying these estimates were not always well documented and the savings were not always the result of business reform.

Moreover, uncertainty about the leadership structure at DOD for overseeing and reforming business operations, including the recent elimination of the Chief Management Officer position, calls into question whether efforts to fundamentally transform how the department does business can be realized and sustained. GAO has previously highlighted the importance of DOD providing clear department-wide guidance on roles, responsibilities, authorities, and resources for business reform efforts will be necessary for DOD to make progress in these efforts.

Chair McCollum, Ranking Member Calvert, and Members of the Subcommittee:

Thank you for the opportunity to discuss the future of defense spending. Decisions by the Department of Defense (DOD) and Congress regarding long-term defense needs will have a meaningful impact on the path of federal spending and the nation's fiscal future. The nation faces serious economic, security, and social challenges that require Congress and the administration to make difficult, near-term policy choices in setting national priorities, including within national defense. These choices will influence the level and composition of federal spending and how the government obtains needed resources.

We have previously reported that the federal government faces an unsustainable long-term fiscal path caused by an imbalance between revenue and spending built into the structure of current law.¹ We have also reported that Congress and the administration have taken necessary actions to respond to the COVID-19 pandemic and the resulting severe economic downturn. Once public health goals have been attained and the economy has substantially recovered, Congress and the administration should swiftly implement a broad plan to address the long-term fiscal outlook. We have stated that a long-term fiscal plan is essential to ensure that the United States remains in a strong economic position to meet its security and social needs, as well as to preserve flexibility to respond to unforeseen events, including any future military conflicts or other national efforts the department may be called upon to support.²

As the single largest category of discretionary spending, defense spending is likely to play a large role in any discussion of future federal spending. Outlays for national defense were about \$714 billion in fiscal year 2020—representing about 44 percent of all discretionary outlays and about 11 percent of all federal outlays—and are expected to increase to \$733 billion in fiscal year 2021.³ We and others have found that DOD

¹GAO, *The Nation's Fiscal Health: A Long-Term Plan Is Needed for Fiscal Sustainability*, [GAO-21-161T](#) (Washington, D.C.: Oct 7, 2020).

²GAO, *The Nation's Fiscal Health: Action Is Needed to Address the Federal Government's Fiscal Future*, [GAO-20-403SP](#) (Washington, D.C.: Mar. 12, 2020).

³Congressional Budget Office, *The Budget and Economic Outlook: 2021 to 2031* (February 11, 2021). Total federal outlays include discretionary and mandatory outlays as well as net interest.

faces challenges that are likely to put pressure on its budget moving forward, including funding key departmental priorities, such as implementation of the National Defense Strategy (NDS), and addressing enduring costs related to overseas contingency operations.⁴

My testimony today provides information on how DOD can better manage defense spending in several areas. Specifically, I will summarize our prior work on how DOD can better manage defense spending, specifically related to its ability to (1) accurately estimate its budgetary requirements and execute appropriated funds; (2) determine resource requirements related to overseas contingency operations, (3) reduce improper payments, and (4) sustain and refine department-wide reform efforts.

We conducted the work on which this statement was based in accordance with all sections of GAO's Quality Assurance Framework that are relevant to our objectives. The framework requires that we plan and perform the engagement to obtain sufficient and appropriate evidence to meet our stated objectives and to discuss any limitations in our work. We believe that the information and data obtained, and the analysis conducted, provide a reasonable basis for any findings and conclusions in these products. More detailed information on the objectives, scope, and methodology for the work on which this statement is based is available in the issued reports cited throughout this statement.

⁴GAO, *Overseas Contingency Operations: Alternatives Identified to the Approach to Fund War-Related Activities*, [GAO-19-211](#) (Washington, D.C.: Jan. 28, 2019); *Department of Defense: Actions Needed to Address Five Key Mission Challenges*, [GAO-17-369](#) (Washington, D.C.: June 13, 2017); *Overseas Contingency Operations: OMB and DOD Should Revise the Criteria for Determining Eligible Costs and Identify the Costs Likely to Endure Long Term*, [GAO-17-68](#) (Washington, D.C.: Jan. 18, 2017); and National Defense Strategy Commission, *Providing for the Common Defense: The Assessment and Recommendations of the National Defense Strategy Commission* (Nov. 14, 2018).

Opportunities Exist for DOD to Improve its Budgeting and Management of Funds, Determine Future Resource Requirements, Reduce Improper Payments, and Implement Department-wide Business Reform Efforts

Our previous work has shown that a number of opportunities exist for DOD to strengthen management of defense spending, which would help the department address the challenges it faces, especially in a constrained budget environment. Among these are (1) improving budgeting and execution of funds, (2) more clearly determining resource needs related to overseas contingency operations, (3) reducing improper payments, and (4) sustaining and refining department-wide reform efforts.

Improving budgeting and execution of funds. Our prior work has shown that DOD does not fully obligate its appropriated funds and can improve both its budgeting for and its use of these resources. For example, in reviews of the department's execution of operation and maintenance funds that we conduct each year as technical assistance for the congressional defense committees, we have found that that DOD reported leaving billions in operation and maintenance balances for fiscal years 2010 through 2014 unexpended and cancelled. In addition, DOD reported leaving billions in expired unobligated balances for fiscal years 2015 through 2019.⁵ Further, our reviews of military personnel appropriations have found that for the last 4 years of those appropriations' 6-year life cycle, hundreds of millions of dollars of unobligated and unexpended amounts remained in the accounts until cancellation.⁶

We have also found that DOD could potentially save hundreds of millions of dollars annually by developing and adopting a way for DOD depots to more reliably and consistently calculate allowable workload carryover.⁷ Each year, the military services order and fund billions of dollars of work from DOD's maintenance depots, some of which cannot be completed

⁵Unexpended balances are the total of obligated but unliquidated, and unobligated amounts. Time-limited appropriations, such as operation and maintenance amounts, expire at the end of the fiscal year for which they were appropriated and become unavailable for new obligations. Unexpended balances are available for 5 years after expiration for limited purposes, such as liquidating obligations incurred during the fiscal year of availability. After the 5-year period has elapsed, all obligated and unobligated balances are canceled, the expired account is closed, and all remaining funds are returned to the general fund of the Department of the Treasury.

⁶Pursuant to a provision in the conference report accompanying the fiscal year 2020 National Defense Authorization Act, GAO is currently examining the extent of canceled appropriations across federal agencies, including DOD; the factors contributing to cancellations; and efforts selected agencies make to manage these cancellations.

⁷See GAO, *2020 Annual Report: Additional Opportunities to Reduce Fragmentation, Overlap, and Duplication and Achieve Billions in Financial Benefits*, [GAO-20-440SP](#) (Washington, D.C.: May 19, 2020) and *Depot Maintenance: DOD Should Adopt a Metric that Provides Quality Information on Funded Unfinished Work*, [GAO-19-452](#) (Washington, D.C.: July 26, 2019).

before the fiscal year ends. DOD allows depots to complete funded, unfinished work in the next fiscal year and refers to this as carryover. Depot carryover supports the smooth flow of work during the transition from one fiscal year to another. DOD reports that 6 months of carryover is optimal. However, we reported that for fiscal years 2007 through 2018, the Navy, Marine Corps, and Air Force depots averaged less than 6 months of carryover worth \$1.0 billion, \$0.2 billion, and \$1.9 billion, respectively, while Army depots averaged 10 months of carryover worth \$4.3 billion. Excess carryover may reflect an inefficient use of resources and tie up amounts that could be used for other priorities. We recommended that DOD develop and adopt a depot maintenance carryover metric that provides reliable, complete, consistent, and appropriate information. Taking this action could help the department reduce the risk of inefficient use of resources.

We have also made recommendations in the past related to better estimating the department's annual budget requirements. Doing so would help the department obligate its appropriations within the period of availability established by Congress and better position the department to minimize amounts that expire before they can be obligated.

DOD has identified opportunities to improve its budgeting and execution of funds and has made progress in doing so. For example, according to DOD, the Navy recently conducted reviews of programs that had been delayed due to cost, schedule, or performance issues and reduced funds allocated to these programs, allowing \$540 million in fiscal year 2021 to be redirected to other priorities.⁸

More clearly determining future resource requirements related to overseas contingency operations. DOD and Congress need a clearer determination of DOD's future resource requirements, in particular whether and how to incorporate enduring Overseas Contingency Operations (OCO) costs—costs that will endure beyond ongoing contingency operations—into DOD's base budget. In 2014 and 2017, we reported on DOD's enduring OCO costs and made recommendations to help DOD and Congress have a more complete picture of the department's future funding needs, including by developing guidance for transitioning enduring OCO costs to the base budget and estimating its

⁸Office of the Under Secretary of Defense (Comptroller), *Defense Budget Overview* (February 2020) (revised May 13, 2020).

enduring costs.⁹ Further, in January 2019, we reported on alternative approaches to funding war-related activities, including moving enduring costs to the base budget.¹⁰

Future requirements from enduring OCO costs could total tens of billions of dollars a year. For example, in its fiscal year 2021 budget request, DOD estimated that \$48.5 billion of its \$69.0 billion request for OCO, or 70 percent of its request, was for enduring or base requirements funded by OCO. DOD's longer-range forecasts for the defense budget include these enduring costs as part of DOD's base budget for fiscal years 2022 through 2025. However, few details exist as to what makes up these enduring costs or how they were derived, raising questions about how much should be included as future requirements.

Reducing improper payments. Addressing improper payments—payments that should not have been made or were made in an incorrect amount—is an area where better financial management could save DOD billions of dollars. In its fiscal year 2020 agency financial report, DOD estimated that it paid about \$11.4 billion in improper payments, or about 1.7 percent of all payments it made that year.¹¹

We have examined specific programs at DOD that are vulnerable to improper payments. For example, in August 2019, we reported on DOD's efforts to reduce improper travel payments, which represented \$549 million in payments in fiscal years 2017 and 2018.¹² We found several weaknesses to DOD's approach to reducing improper payments. For example, DOD had mechanisms to identify errors leading to improper travel payments, and some components had developed specific corrective plans to address the errors. However, we found that these efforts did not clearly identify the root causes of the errors, in part because there was no common understanding of what constitutes a root cause. We made five recommendations to strengthen DOD's efforts,

⁹GAO-17-68 and GAO, *Defense Headquarters: Guidance Needed to Transition U.S. Central Command's Cost to the Base Budget*, GAO-14-440 (Washington, D.C.: June 9, 2014).

¹⁰GAO-19-211.

¹¹DOD, *Agency Financial Report, Fiscal Year 2020* (Nov. 16, 2020).

¹²GAO, *Defense Travel: DOD Should Strengthen Its Ongoing Actions to Reduce Improper Travel Payments*, GAO-19-530 (Washington, D.C.: Aug. 15, 2019). DOD travel payments are made to active and reserve or guard servicemembers and civilian employees and cover travel for both temporary duty and permanent change of station.

which the department has since implemented. However, DOD's estimates of its improper payments in other areas indicate more remains to be done.

More broadly, we have reported that DOD financial management—its management of business systems and processes, internal controls, and financial reporting—continues to face significant challenges, including a decentralized environment; cultural resistance to change; lack of skilled financial management staff; ineffective processes, systems, and controls; incomplete corrective action plans; and the need for more effective monitoring and reporting.¹³ Sound financial management practices and reliable, useful, and timely financial and performance information would help ensure DOD's accountability over its extensive resources and more efficient management of its assets and budgets.

We reported in March 2019 and October 2020 that DOD's recent department-wide financial statement audits found numerous material weaknesses in internal control across the department, including examples of long-standing weaknesses that DOD has been unable to address, which contributed to disclaimers of opinion on the financial statements.¹⁴ However, there have also been signs of progress, including instances in the financial statement audit has found opportunities to save resources and improve military readiness. For example, the Navy identified a warehouse that was not in its property records that contained approximately \$126 million in aircraft parts. The Navy was able to fill over \$20 million in open orders for these parts. By using these parts, aircraft were repaired quicker and made available for use, which improved military readiness.

Sustaining and refining department-wide business reform efforts. In addition to improving its budgeting and execution of funds and strengthening its financial management practices, DOD must transform its

¹³GAO, *High-Risk Series: Substantial Efforts Needed to Achieve Greater Progress on High-Risk Areas*, [GAO-19-157SP](#) (Washington, D.C.: Mar. 6, 2019).

¹⁴GAO, *DOD Financial Management: Continued Efforts Needed to Correct Material Weaknesses Identified in Financial Statement Audit*, [GAO-21-157](#) (Washington, D.C.: Oct. 13, 2020) and [GAO-19-157SP](#). A disclaimer of opinion arises when the auditor is unable to obtain sufficient, appropriate audit evidence to provide a basis for an audit, the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive, and accordingly does not express an opinion on the financial statements. DOD is the only major federal agency that has been unable to receive a clean audit opinion on its financial statements.

overall business operations so that it can more efficiently and effectively use its resources. For more than a decade, we have reported on the department's business transformation efforts.¹⁵ However, many of the efforts have not met their intended goals. For example, we reported in July 2017 that DOD had not identified \$10 billion in cost savings for fiscal years 2015 through 2019, as directed by Congress, and did not have a reliable cost savings estimate to support the savings it had identified.¹⁶

In recent years, DOD reported notable achievements from its most recent department-wide business reform efforts. For example, in 2019, DOD conducted a Defense-Wide Review, led by the Secretary and Deputy Secretary of Defense, which assessed organizations within the Office of the Secretary of Defense and selected defense agencies and DOD field activities—including those that support the department's enterprise business operations—to improve the alignment of resources to National Defense Strategy priorities. The results of these reviews were incorporated into DOD's fiscal year 2021 budget request. The department reported \$37 billion in savings from fiscal years 2017 to 2021 as a result of this and other department-wide reform efforts.¹⁷

However, we reported in November 2020 that, while DOD's reported savings were largely reflected in its budget materials—an improvement from prior reform efforts we had reviewed—the underlying analyses were not always well documented and the savings were not always the result of business reform.¹⁸ For example, one reform initiative was based on the delay of military construction projects. According to DOD officials, this delay allowed them to fund higher priorities. If a delayed project is still planned, however, the costs will likely be realized in a future year and is not really a reflection of business process transformation. We recommended that the department establish formal processes to standardize the development and documentation of cost savings and

¹⁵We added DOD's overall approach to managing business transformation as a high-risk area in 2005 because DOD had not taken the necessary steps to achieve and sustain business reform on a broad, strategic, department-wide, and integrated basis. See GAO, *High Risk Series: An Update*, [GAO-05-207](#) (Washington, D.C.: Jan. 1, 2005).

¹⁶GAO, *Defense Efficiency Initiatives: DOD Needs to Improve the Reliability of Cost Savings Estimates*, [GAO-17-724](#) (Washington, D.C.: July 24, 2017).

¹⁷\$5.9 billion of the \$37 billion was attributed to the Defense-Wide Review.

¹⁸GAO, *Defense Reform: DOD Has Made Progress, but Needs to Further Refine and Formalize Its Reform Efforts*, [GAO-21-74](#) (Washington, D.C.: Nov. 5, 2020).

ensure that reported savings are consistent with the department's definition of reform.

DOD concurred with our recommendations; however, uncertainty about the leadership structure at DOD for overseeing and reforming business operations calls into question whether efforts to fundamentally transform how the department does business can be realized and sustained. Most notably, the William M. (Mac) Thornberry National Defense Authorization Act for Fiscal Year 2021 eliminated the position of Chief Management Officer, which functioned as the primary lead over DOD reform and efficiency efforts in recent years, with its responsibilities and resources transferred to one or more offices within DOD.¹⁹ In January 2021, the Deputy Secretary of Defense issued a memorandum that, among other things, provided an initial roadmap for dividing these responsibilities, but did not provide specific implementing guidance.²⁰ Future business transformation efforts could be impeded by uncertainty about how the offices that assume these responsibilities will function, including whether they have appropriate authorities and resources to lead the department's reform and efficiency efforts. We have previously noted that providing clear department-wide guidance on roles, responsibilities, authorities, and resources for business reform efforts is necessary for DOD to make progress in these efforts.

In conclusion, DOD faces challenges that are likely to put pressure on its budget moving forward and will heighten the debate over the future of defense spending. However, there are also numerous opportunities for the department to meet these challenges by improving its management of the resources available to it. I look forward to continuing to work with you and the department to help it address these challenges and make the most of these opportunities.

Chair McCollum, Ranking Member Calvert, and Members of the Subcommittee, this completes my prepared statement. I would be pleased to respond to any questions you may have at this time.

¹⁹Pub. L. No 116-283, § 901 (2021).

²⁰Deputy Secretary of Defense Memorandum, *Disestablishment of the Chief Management Officer of the DoD and Realignment of Functions and Responsibilities* (Jan. 11, 2021).

GAO Contacts and Staff Acknowledgments

If you or your staff members have any questions about this testimony, please contact Elizabeth A. Field, Director, Defense Capabilities and Management, at (202) 512-2775 or FieldE1@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. GAO staff who made key contributions to this testimony are Richard Geiger (Assistant Director), Daniel Ramsey (Analyst in Charge), Jeff Arkin, Susan J. Irving, Felicia Lopez, Thomas J. McCabe, and Doris Yanger.

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

GAO's Mission

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

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through our website. Each weekday afternoon, GAO posts on its [website](#) newly released reports, testimony, and correspondence. You can also [subscribe](#) to GAO's email updates to receive notification of newly posted products.

Order by Phone

The price of each GAO publication reflects GAO's actual cost of production and distribution and depends on the number of pages in the publication and whether the publication is printed in color or black and white. Pricing and ordering information is posted on GAO's website, <https://www.gao.gov/ordering.htm>.

Place orders by calling (202) 512-6000, toll free (866) 801-7077, or TDD (202) 512-2537.

Orders may be paid for using American Express, Discover Card, MasterCard, Visa, check, or money order. Call for additional information.

Connect with GAO

Connect with GAO on [Facebook](#), [Flickr](#), [Twitter](#), and [YouTube](#).
Subscribe to our [RSS Feeds](#) or [Email Updates](#). Listen to our [Podcasts](#).
Visit GAO on the web at <https://www.gao.gov>.

To Report Fraud, Waste, and Abuse in Federal Programs

Contact FraudNet:

Website: <https://www.gao.gov/fraudnet/fraudnet.htm>

Automated answering system: (800) 424-5454 or (202) 512-7700

Congressional Relations

Orice Williams Brown, Managing Director, WilliamsO@gao.gov, (202) 512-4400, U.S. Government Accountability Office, 441 G Street NW, Room 7125, Washington, DC 20548

Public Affairs

Chuck Young, Managing Director, youngc1@gao.gov, (202) 512-4800 U.S. Government Accountability Office, 441 G Street NW, Room 7149 Washington, DC 20548

Strategic Planning and External Liaison

Stephen J. Sanford, Acting Managing Director, spel@gao.gov, (202) 512-4707 U.S. Government Accountability Office, 441 G Street NW, Room 7814, Washington, DC 20548

