



May 2015

SEQUESTRATION

Documenting and Assessing Lessons Learned Would Assist DOD in Planning for Future Budget Uncertainty

Why GAO Did This Study

In March 2013, the President ordered across-the-board spending reductions, known as sequestration, for all federal agencies and departments. As a result, DOD's discretionary resources were reduced by about \$37.2 billion over the remainder of FY 2013. The joint explanatory statement accompanying the National Defense Authorization Act for Fiscal Year 2014 included a provision for GAO to review DOD's implementation and effects of the FY 2013 sequestration. This report examines, for the FY 2013 sequestration, (1) how DOD allocated reductions, (2) what effects DOD has identified on selected DOD programs, services, and military readiness, and (3) the extent to which DOD took actions to mitigate the effects of sequestration.

GAO analyzed DOD's FY 2013 budget and execution data and reviewed a nongeneralizable sample of five types of expenses or investments—such as maintenance, and a selection of weapon systems and military construction projects—based on the magnitude of reductions and possible relation to readiness. For each area, GAO reviewed data on planned versus actual spending and reports on actions taken and interviewed DOD and service officials.

What GAO Recommends

GAO recommends that DOD document and assess lessons learned and best practices from implementing sequestration, as well as leverage existing mechanisms to share these lessons within the services and across the department. DOD concurred with GAO's recommendations.

View [GAO-15-470](#). For more information, contact Johana R. Ayers at (202) 512-5741 or ayersj@gao.gov; or Michael J. Sullivan at (202) 512-4841 or sullivanm@gao.gov.

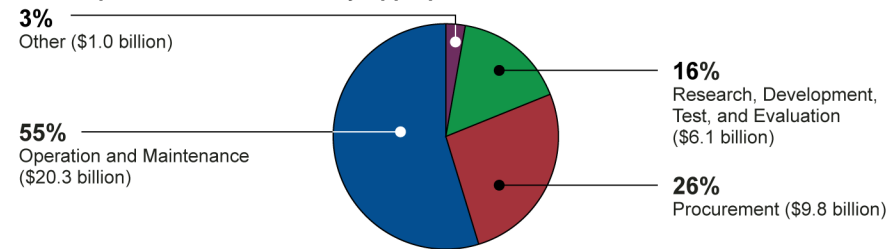
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What GAO Found

To implement sequestration in fiscal year (FY) 2013, the Department of Defense's (DOD) discretionary resources were reduced in approximate proportion to the size of its appropriation accounts, with the largest reductions to DOD's largest accounts, operation and maintenance. The military services' accounts absorbed about 76 percent of DOD's reduction relative to other defense accounts. In contrast to other accounts, such as procurement, DOD and the services had some flexibility to allocate varying reductions to functions and activities funded by the operation and maintenance accounts.

DOD Sequestration Reductions by Appropriation Account, Fiscal Year 2013



Source: GAO analysis of Department of Defense (DOD) data. | GAO-15-470

To implement sequestration reductions, DOD took near-term actions to preserve key programs and functions and reduced spending on lower priorities. Many effects that DOD officials attributed to the reductions were interdependent, with some difficult to quantify and assess. Effects DOD identified generally related to:

- **Costs and spending:** Some actions increased costs or deferred spending to subsequent years (e.g., procurement delays to the Navy's P-8A aircraft program resulted in an estimated \$56.7 million life-cycle cost increase).
- **Time frames or cancellations:** Delayed or cancelled activities affected some plans to improve military readiness (e.g., the Air Force cancelled or reduced participation in most of its planned large-scale FY 2013 training events, and expects delayed achievement of longer-term readiness goals).
- **Availability of forces and equipment:** Some actions decreased the forces and equipment ready for contingencies (e.g., the Navy cancelled or delayed some planned ship deployments, which resulted in a 10 percent decrease in its deployed forces worldwide).

DOD and the services relied on existing processes and flexibilities to mitigate the effect of sequestration in FY 2013, but did not comprehensively document or assess best practices or lessons learned from their experiences. For example, the services used authorities to reprogram and transfer funds, which allowed them to reverse some initial actions taken to reduce spending. GAO identified some DOD efforts to document lessons learned or best practices related to the implementation of the FY 2013 sequestration, but found them to be limited in scope and not widely shared. Without documenting and assessing lessons learned and best practices, such as strategies for evaluating interdependence of funding sources and programs, and leveraging existing mechanisms to share this information, DOD is missing an opportunity to gain institutional knowledge that would facilitate future decision making about budgetary reductions.

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Abbreviations

DOD	Department of Defense
RDT&E	Research, Development, Test and Evaluation
SBIRS High	Space Based Infrared System High

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May 27, 2015

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

The Honorable Mac Thornberry
Chairman
The Honorable Adam Smith
Ranking Member
Committee on Armed Services
House of Representatives

Throughout much of fiscal year 2013, the Department of Defense (DOD) and other federal agencies faced an uncertain budgetary environment, including the timing and extent of across-the-board spending reductions known as sequestration. DOD began fiscal year 2013 under a continuing resolution that, among other limitations, held funding near the same levels as in fiscal year 2012.¹ Then, on March 1, 2013, pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985² as amended by the Budget Control Act of 2011, the President ordered the sequestration of budgetary resources across the federal government.³ Ultimately, DOD was required to reduce its discretionary budget by about \$37.2 billion, or

¹The Continuing Appropriations Resolution, 2013, Pub. L. No. 112-175 (2012).

²The Balanced Budget and Emergency Deficit Control Act of 1985, Pub. L. No. 99-177 (1985), first authorized sequestration as a budget enforcement mechanism.

³The Budget Control Act of 2011, Pub. L. No. 112-25 (2011), established, among other things, a congressional Joint Select Committee on Deficit Reduction to propose legislation that would reduce federal deficits by \$1.5 trillion over ten years (fiscal years 2012–2021), and two sequestration procedures: a sequestration procedure originally to be ordered by the President on January 1, 2013 to ensure that the level of deficit reduction would be achieved in the event that the Joint Committee failed to reach agreement to reduce the deficit by at least \$1.2 trillion, and an additional sequestration procedure triggered if appropriations exceed established discretionary spending caps in a given fiscal year between fiscal years 2012 and 2021. The sequestration in fiscal year 2013 used the former procedure, triggered because the Joint Committee did not reach agreement.

about 7 percent, over the remainder of fiscal year 2013.⁴ Both the law and the President's order required DOD to apply sequestration reductions across all nonexempt programs, projects, and activities including within operation and maintenance; research, development, test, and evaluation (RDT&E); procurement; and military construction appropriation accounts. Consistent with applicable legislation, the order exempted military personnel accounts.⁵

Although the Bipartisan Budget Act of 2013⁶ provided some relief from sequestration reductions for fiscal years 2014 and 2015, DOD faces a continued environment of constrained budgetary resources until at least 2023 under current law.⁷ As DOD balances its ongoing strategic and operational challenges with constrained resources, the ability to mitigate risk and to determine how to prioritize expenses and investments will be paramount.

Over the last two years, we have examined DOD's planning and implementation of fiscal year 2013 sequestration reductions. In November 2013, we found that DOD took a number of actions in response to

⁴DOD was also required to apply a sequestration reduction of about \$37.4 million in its direct, or mandatory, spending programs. While discretionary programs are typically funded annually through the congressional appropriations process, mandatory programs are direct spending or entitlement programs. This is budget authority typically authorized by permanent law, rather than annual appropriations acts.

⁵Certain defense-related programs, projects, and activities were exempted from sequestration in fiscal year 2013. For example, the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, permits the President (subject to certain requirements) to exempt military personnel accounts, and the Office of Management and Budget notified Congress of the President's intent to do so for fiscal year 2013 on July 31, 2012. Other defense-related accounts exempted from sequestration included the Department of Defense Medicare-Eligible Retiree Health Care Fund as well as all programs administered by the Department of Veterans Affairs. In this report, we refer to the operation and maintenance; research, development, test, and evaluation (RDT&E); procurement; and military construction accounts within our scope as *nonexempt* accounts because they were subject to sequestration.

⁶Pub. L. No. 113-67 (2013).

⁷The Budget Control Act of 2011, Pub. L. No. 112-25 (2011), established spending caps and an accompanying sequestration procedure through 2021, but the Bipartisan Budget Act of 2013 extended the budget caps and sequestration through 2023. As a result of funding reductions from the Budget Control Act, the Bipartisan Budget Act of 2013, and related actions, DOD estimates reductions in planned defense spending from fiscal years 2012 through 2021 will exceed \$1 trillion. DOD, *Estimated Impacts of Sequestration-Level Funding* (Apr. 3, 2014).

sequestration, such as cancelling or curtailing training for units not preparing to deploy, postponing some planned equipment maintenance at its depots, delaying repairs or renovation of facilities, reducing some weapon system quantities, and delaying system development and testing.⁸ At that time, DOD officials explained that the impacts of the fiscal year 2013 sequestration would not be fully realized until fiscal year 2014 or later. In June 2014, we reported on DOD's implementation of an administrative civilian personnel furlough in response to the fiscal year 2013 sequestration reductions, finding that DOD developed its initial estimated cost savings for the furlough without excluding pay for those excepted from the furlough and did not update its estimate throughout the furlough period.⁹ Further, officials at selected sites we visited described effects of the furlough, such as decline in morale, mission delays, and inconsistencies and clarification issues with the furlough guidance. We recommended that DOD update and utilize its furlough cost savings information as it becomes available in the event that DOD decides to implement another administrative furlough in the future. DOD partially concurred with the recommendation.

In addition, in March 2014 we reported on how 23 federal agencies, including DOD, prepared for and implemented sequestration in fiscal year 2013.¹⁰ We found that sequestration reduced or delayed some public services and disrupted some operations, and that agencies faced planning challenges because they lacked sufficient information and institutional knowledge on how to apply sequestration reductions. We recommended that the Office of Management and Budget publish criteria to clarify the application of sequestration reductions across certain accounts, and direct agencies to record their decisions and principles used to implement sequestration for potential future use. The Office of Management and Budget agreed with our recommendations and has updated its budget guidance, Circular No. A-11 on the *Preparation,*

⁸GAO, *Sequestration: Observations on the Department of Defense's Approach in Fiscal Year 2013*, [GAO-14-177R](#) (Washington, D.C.: Nov. 7, 2013).

⁹GAO, *Sequestration: Comprehensive and Updated Cost Savings Would Better Inform DOD Decision Makers If Future Civilian Furloughs Occur*, [GAO-14-529](#) (Washington, D.C.: June 17, 2014).

¹⁰GAO, *2013 Sequestration: Agencies Reduced Some Services and Investments, While Taking Certain Actions to Mitigate Effects*, [GAO-14-244](#) (Washington, D.C.: Mar. 6, 2014).

Submission, and Execution of the Budget, to address them.¹¹ A list of related products is included at the end of this report.

The joint explanatory statement accompanying the National Defense Authorization Act for Fiscal Year 2014 included a provision that we review DOD's implementation and effects of the fiscal year 2013 sequestration.¹² Further, the House Committee on Armed Services requested that we review the implementation and effects of 2013 sequestration on DOD. This report examines (1) how DOD, including the military services, allocated fiscal year 2013 sequestration reductions, (2) what effects, if any, DOD has identified from the fiscal year 2013 sequestration on selected DOD programs, services, and military readiness, and (3) the extent to which DOD took actions to mitigate the effects of the fiscal year 2013 sequestration. The report provides an overview of our findings for each of these objectives. Appendix I provides the results from our nongeneralizable case studies of five types of expenses or investments we reviewed in detail—operational tempo and training (which includes deployments), maintenance and weapon system support, base operating support, and a selection of weapon systems and military construction projects—to represent each type of nonexempt account.

To determine how DOD, including the military services, allocated fiscal year 2013 sequestration reductions, we reviewed data from a June 2013 DOD report¹³ to identify funding reductions among and within the operation and maintenance, RDT&E, procurement, and military construction accounts.¹⁴ For the operation and maintenance accounts, we reviewed data from DOD's operation and maintenance budget execution report for the fourth quarter of fiscal year 2013 to identify how reductions were allocated across subactivity groups for the military services' active

¹¹Office of Management and Budget, Circular No. A-11, *Preparation, Submission, and Execution of the Budget* (Nov. 25, 2014).

¹²House of Representatives Committee on Armed Services Print No. 2. Legislative Text and Joint Explanatory Statement to Accompany H.R. 3304, at 649 (December 2013).

¹³DOD, Office of the Under Secretary of Defense (Comptroller), *Department of Defense Report on the Joint Committee Sequestration for Fiscal Year 2013* (June 2013). DOD's report summarizes, by account, the financial effect on its discretionary budget authority as a result of the President's March 1, 2013, sequestration order.

¹⁴Our analysis did not include military personnel accounts because those were exempt from sequestration in fiscal year 2013.

and reserve components.¹⁵ In consultation with the Office of the Under Secretary of Defense (Comptroller), we used the operation and maintenance execution data and DOD's budget justification materials to group the 258 unclassified active and reserve components' subactivity groups into 11 broad categories of functions and activities, which we used to identify areas with the largest sequestration reductions.¹⁶ For the RDT&E and procurement accounts, we reviewed data from DOD's June 2013 report to identify how DOD and the military departments allocated reductions across weapon systems within those accounts between fiscal year 2013 funds and prior year unobligated balances.¹⁷ Similarly, for the military construction accounts, we reviewed the same DOD data to identify how DOD and the active and reserve military service components allocated reductions for major military construction projects between fiscal year 2013 funds and prior year unobligated balances.¹⁸ Based on information on the collection and management of DOD's sequestration-

¹⁵As part of its budget justification materials, DOD divides its services' operation and maintenance budget requests into four budget activities: (1) operating forces, (2) mobilization, (3) training and recruiting, and (4) administration and servicewide activities. DOD further divides its budget activities into various activity groups, then again into subactivity groups. The number and names of the activity and subactivity groups differ with each service. There are 258 unclassified subactivity groups in total across all services. The subactivity group level is the lowest accounting level at which Congress appropriates funds within the operation and maintenance accounts.

¹⁶Although the sequestrable base for each of the 11 operation and maintenance case study categories included both fiscal year 2013 enacted funding and any prior year unobligated balances, we did not include prior year unobligated balances in our analysis of sequestration data within those categories because most operation and maintenance funding is generally available for obligation for one year only, and any prior year unobligated balances within operation and maintenance accounts are relatively small. We discuss these operation and maintenance categories and our methodology for choosing them in more detail in appendix II.

¹⁷Because many of DOD's appropriations are available for obligation for several fiscal years, DOD had significant balances from prior fiscal years still available for new obligations in fiscal year 2013. In part because these prior year unobligated balances were still available for new obligations, they were not exempt from sequestration. See 2 U.S.C. § 905(e). In this report when we refer to prior year unobligated balances, we are referring exclusively to prior year balances that were still available for new obligations, and not to budget authority that remained unobligated after its fixed period of availability expired, and thus was no longer available for new obligations.

¹⁸Military construction projects must generally be specifically authorized on a project-by-project basis, subject to certain exceptions. Projects that have been specifically authorized by law are sometimes called major military construction projects to distinguish them from, among other things, minor unspecified military construction projects authorized by 10 U.S.C. § 2805.

related data that we obtained from interviews with and questionnaires to relevant DOD officials, we determined that these data were sufficiently reliable for our purposes.

To determine what, if any, effects DOD has identified from the fiscal year 2013 sequestration on selected DOD programs, services, and military readiness, we utilized a nongeneralizable case study approach to review effects on selected activities, projects, and programs within each appropriation account. For the operation and maintenance accounts, we selected 3 of the 11 categories that experienced large sequestration reductions in 2013 based on our analysis of fiscal year 2013 budget data and which, according to DOD documents, had the potential for the greatest impact on military readiness.¹⁹ The operation and maintenance case studies we selected were (1) operational tempo and training, (2) maintenance and weapon systems support, and (3) base operating support. The RDT&E and procurement case study included a selection of DOD and service acquisition programs for 19 weapon systems that we selected based on weapon systems that had the highest dollar amount of sequestration reductions as identified in the June 2013 DOD report and/or weapon systems with the greatest reported sequestration-related effects based on our analysis of DOD budget documents and our analysis of 2013 and 2014 budget data. The military construction case study included projects funded by all service components that experienced sequestration reductions to their military construction accounts.²⁰ For all five case studies, we reviewed program and project data and documentation and interviewed cognizant officials at the service headquarters-, command-, and program office-level to identify any effects of sequestration. The case study findings provide illustrative examples of sequestration effects and mitigation strategies across the department. While the findings of the five case studies cannot be generalized to all DOD programs, projects, and

¹⁹These three categories were among the four largest categories in terms of the size of their sequestration reduction as a percentage of their total enacted amount.

²⁰Accounts with fiscal year 2013 appropriated amounts below the baseline set by the Office of Management and Budget in accordance with the Balanced Budget and Emergency Deficit Control Act of 1985, codified as amended in relevant part at 2 U.S.C. § 903(f)(2), had their sequestration amounts reduced pro rata. In this case, because the military construction accounts of the active Army, the active Air Force, Air Force Reserve, and Air National Guard had appropriated amounts significantly lower than the baseline, no further reductions were made for those accounts.

activities, they reflect a wide range of perspectives across the department.

To determine the extent to which DOD took actions to mitigate the effects of the fiscal year 2013 sequestration, we utilized our case study approach to review mitigation efforts and plans for selected activities, projects, and programs within each appropriation account included in our scope. We interviewed officials and gathered documentation on actions that DOD took to mitigate sequestration reductions. Further, we reviewed DOD's use of processes and other authorities to re-prioritize fiscal year 2013 funds within and across the operation and maintenance, RDT&E, procurement, and military construction accounts and compared the services' use of these authorities to data from fiscal years 2009 through 2014 to identify any trends. We limited the scope of our data analysis to prior-approval reprogrammings,²¹ which includes certain transfers, given that the data on these types of reprogrammings were readily available through the website of the Office of the Under Secretary of Defense (Comptroller) and could be corroborated with the data provided directly by that office within existing time frames.²² Specifically, we obtained that office's spreadsheets with data on reprogrammings and compared a nongeneralizeable sample of randomly-selected data points between the website and the spreadsheets to assess the reliability of the data. We found these data to be reliable for the purposes of reporting on DOD's reprogramming trends. We also gathered documentation and interviewed DOD and service officials to identify any efforts taken to gather and apply lessons learned from their experiences implementing sequestration in fiscal year 2013 in response to a circular that was revised recently by the

²¹DOD's Financial Management Regulation requires that certain fund realignments be approved in advance by the congressional committees of jurisdiction. DOD Financial Management Regulation 7000.14-R, Vol. 3, Ch. 6 (March 2011). DOD requires prior approval for fund realignments for a variety of reasons, including changes in funding that exceed certain dollar thresholds or realignments that require the use of certain transfer authorities.

²²The shifting of funds between appropriation accounts is called a transfer. An agency may not transfer funds unless it has statutory authority to do so. By contrast, reprogramming is the shifting of funds from one program to another within an appropriation or fund account for purposes other than those contemplated at the time of appropriation. The authority to reprogram is implicit in an agency's responsibility to manage its funds; no statutory authority is necessary but the agency may be required to notify the congressional appropriations committees, the authorizing committees, or both of any reprogramming action.

Office of Management and Budget.²³ Appendix II provides a more detailed discussion of our scope and methodology. Appendix III presents a list of the subactivity groups included within each of our three operation and maintenance case study categories.

We conducted this performance audit from April 2014 to May 2015 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.

Background

DOD's Major Appropriations and Authorities for Transfers and Reprogrammings

Each year, Congress appropriates new discretionary funds for DOD across a number of appropriation accounts with different purposes, including appropriations for operation and maintenance, RDT&E, procurement, and military construction, among others. Depending on the type of appropriation, DOD may have several accounts for each appropriation type in a given fiscal year. For example, each active and reserve military component as well as other DOD components has its own operation and maintenance accounts. Separately, there are individual RDT&E and procurement accounts for the military services, and a consolidated appropriation for other defense-wide programs.

- Operation and maintenance appropriations fund civilian pay, deployments, training, and maintenance, as well as a variety of other activities such as food, fuel, and utilities.
- RDT&E appropriations fund contractors and government installations to conduct research, development, testing, and evaluation for, among other things, equipment and weapon systems.
- Procurement appropriations generally fund the purchase of capital equipment such as ships, aircraft, ground vehicles, and other items after their development.

²³Office of Management and Budget, Circular No. A-11, *Preparation, Submission, and Execution of the Budget*.

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- Military construction appropriations fund construction, development, conversion, or extension carried out with respect to a military installation, whether to satisfy temporary or permanent requirements, subject to certain exceptions.²⁴

DOD's appropriations have different periods of availability for new obligations. For example, operation and maintenance funding is typically available for incurring new obligations for one fiscal year. RDT&E funding is typically available for two years. Procurement funding is typically available for three years, and military construction funding is typically available for obligation for five fiscal years.

Subject to law and DOD financial management regulations, DOD has the authority to transfer funds between appropriation accounts and to reprogram funds within an appropriation account. For fiscal year 2013, the Consolidated and Further Continuing Appropriations Act, 2013 provided DOD with \$7.5 billion in broad authority to transfer funds between appropriation accounts.²⁵ Of this amount, \$3.5 billion was special transfer authority for purposes related to overseas contingency operations and \$4 billion was general transfer authority. These amounts were generally consistent with the amounts of broad transfer authority that Congress provided to DOD in fiscal years 2011 and 2012. In addition to its transfer authority and subject to certain limitations, DOD also has the authority to reprogram funds within an appropriation account. DOD guidance requires that it seek approval from the congressional defense committees to reprogram funds above certain thresholds and for other specific types of transfers or reprogrammings.²⁶ This guidance also specifies circumstances in which the department may reprogram funds

²⁴For example, most construction projects costing \$1,000,000 or less may be funded by operation and maintenance appropriations.

²⁵Pub. L. No. 113-6, §§ 8005 and 9002 (2013).

²⁶DOD Financial Management Regulation 7000.14-R, Vol. 3, Ch. 6 (March 2011) specifies that reprogrammings or transfers meeting certain criteria require prior congressional approval. For instance, a cumulative increase or decrease of more than \$15 million in a budget activity within an operation and maintenance account would require prior congressional approval. Other specific types of transfers or reprogrammings requiring prior congressional approval include uses of general transfer authority, funds that would be used to increase the procurement quantity of a major end item like an aircraft or naval vessel, funds for an item designated as of special congressional interest, funds that would initiate a new start, and funds that would terminate an appropriated program.

without prior congressional approval if the cumulative increase or decrease of funds is within established thresholds.

Process and Definitions for Implementing Sequestration

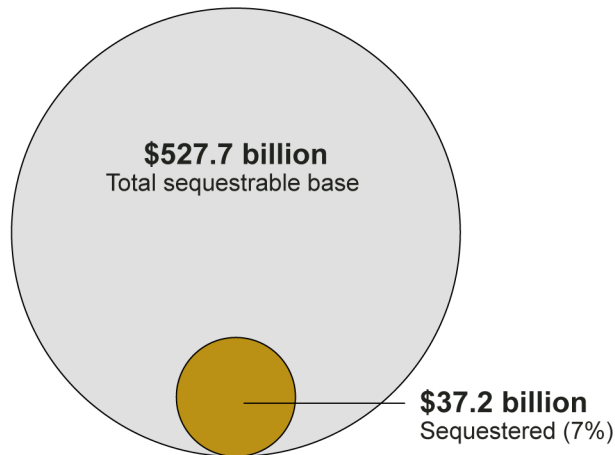
The absence of legislation to reduce the federal budget deficit by at least \$1.2 trillion triggered the sequestration process in section 251A of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, and the President ordered the sequestration of budgetary resources on March 1, 2013.²⁷ Following this order the Office of Management and Budget calculated the amount of DOD's budget authority subject to sequestration across its appropriation accounts—known as the sequestrable base—and reduction amounts based on the annualized amount set out in the continuing resolution then in effect. On March 26, 2013, the Consolidated and Further Continuing Appropriations Act, 2013 was enacted, providing different amounts of budget authority than were provided by the continuing resolution.²⁸ For DOD, the amount of nonexempt discretionary resources subject to sequestration in fiscal year 2013 was about \$527.7 billion. This amount reflected DOD's fiscal year 2013 appropriations, which included base and overseas contingency operations funding plus any unobligated balances in multiyear accounts from prior fiscal years. Ultimately, these resources were reduced by about 7 percent, or \$37.2 billion, as a result of sequestration (see fig. 1 below).²⁹

²⁷Codified as amended at 2 U.S.C. § 901, et seq.

²⁸Pub. L. No. 113-6 (2013).

²⁹DOD's sequestrable base did not include about \$149.7 billion in discretionary resources for military personnel accounts. The Balanced Budget and Emergency Deficit Control Act of 1985, as amended, permits the President (subject to certain requirements) to exempt military personnel accounts from sequestration, and the Office of Management and Budget notified Congress of the President's intent to do so for fiscal year 2013 on July 31, 2012.

Figure 1: Reductions in the Department of Defense's (DOD) Nonexempt Discretionary Resources Due to the Fiscal Year 2013 Sequestration^a



Source: GAO analysis of Department of Defense (DOD) data. | GAO-15-470

Notes: The sequestrable base was calculated by the Office of Management and Budget. The sequestrable base reflected the fiscal year 2013 appropriation, which included funding for overseas contingency operations, plus unobligated balances in multiyear accounts from prior fiscal years that remained available for new obligations.

^aCertain defense-related programs, projects, and activities, such as military personnel accounts, were exempted from sequestration in fiscal year 2013. Thus, we refer to the operation and maintenance; research, development, test, and evaluation; procurement; and military construction accounts within our scope as nonexempt because they were subject to sequestration.

The Balanced Budget and Emergency Deficit Control Act of 1985 (Pub. L. No. 99-177, as amended) required DOD to apply sequestration reductions evenly at the program, project, and activity level for each of its accounts. The definition of programs, projects, and activities differs based on the appropriation account. For operation and maintenance accounts, the program, project, and activity level was defined at the appropriation account level, such as the Operation and Maintenance, Navy and Operation and Maintenance, Army accounts. For RDT&E, procurement, and military construction accounts, the program, project, and activity level was defined as the most specific budget item identified in the Consolidated and Further Continuing Appropriations Act, 2013, classified annexes and explanatory statements to that act, or certain agency budget

justification materials, and this level of detail would include individual weapon systems and military construction projects.³⁰

DOD Actions and Guidance for Implementing Sequestration

Prior to and following the President's March 2013 sequestration order, DOD took various actions to plan for and implement sequestration. Initially, in September 2012 the Deputy Secretary of Defense released a memorandum instructing components to continue spending at normal levels and not to take steps in anticipation of sequestration.³¹ By December 2012, DOD officials said they had begun actively planning for sequestration. On January 10, 2013, the Deputy Secretary of Defense issued an additional memorandum that identified departmental priorities and provided approved actions for DOD components to take in response to the uncertain budgetary environment.³² The memorandum directed DOD components to prioritize activities such as wartime operations and Wounded Warrior programs, and instructed components to take near-term actions, reversible if possible, such as imposing hiring freezes and curtailing travel, training, and conferences. DOD issued further implementation guidance in the months that followed. For example, on May 14, 2013, DOD notified managers to prepare to furlough most DOD civilians for up to 11 days, and on August 6, 2013, DOD reduced the number of civilian furlough days from 11 to 6. In addition, the military services issued guidance to their commands and components, in line with the department's priorities. For example, both the Army³³ and the Air Force issued memorandums in January 2013 outlining certain near-term actions for their commands to take to reduce expenses but stated that any actions must be reversible to minimize harmful effects on readiness.³⁴

³⁰Pub. L. No. 113-6 (2013).

³¹DOD, Deputy Secretary of Defense Memorandum, *Guidance on Fiscal Year 2013 Joint Committee Sequestration* (Sept. 25, 2013).

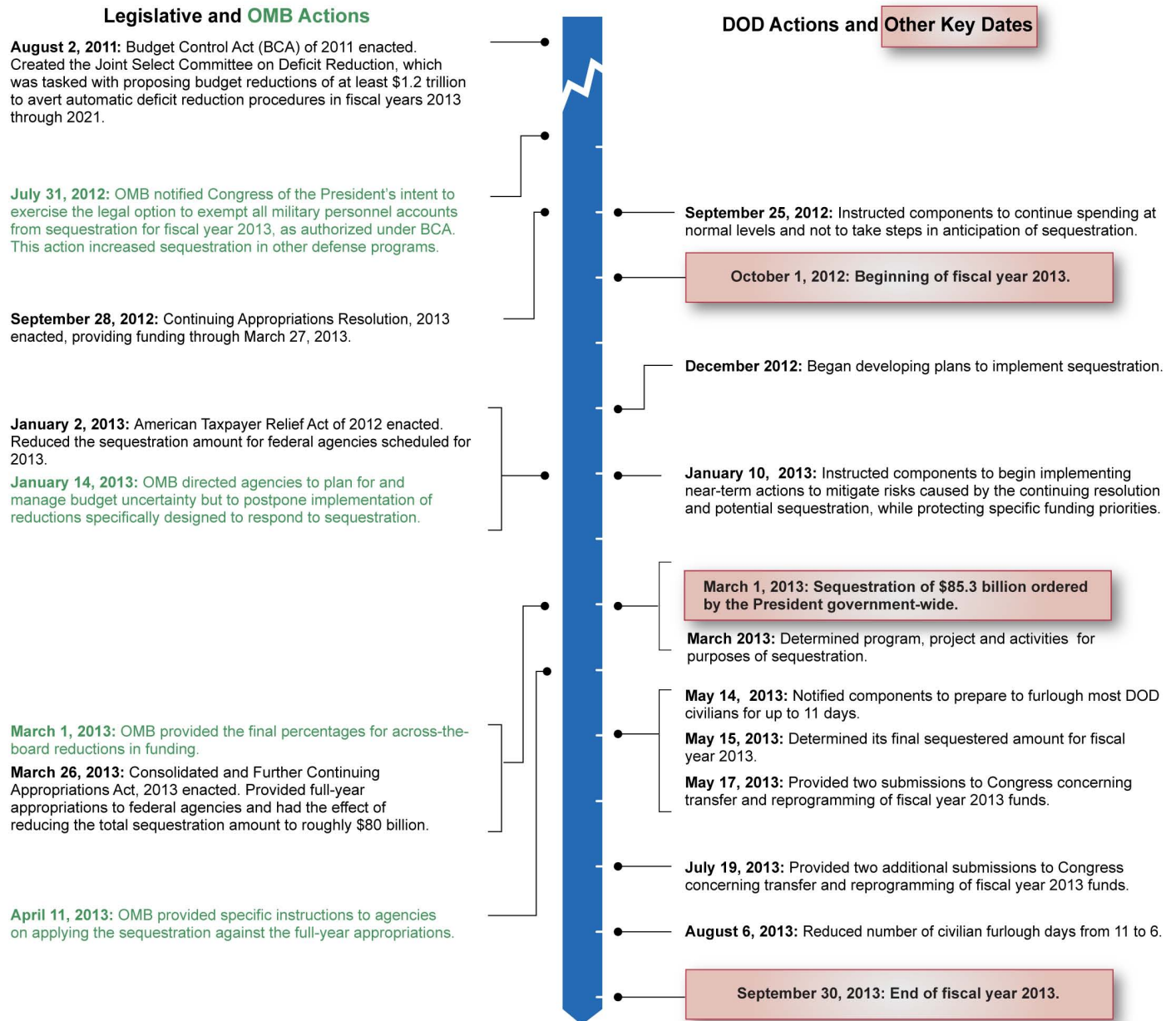
³²DOD, Deputy Secretary of Defense Memorandum, *Handling Budgetary Uncertainty in Fiscal Year 2013* (Jan. 10, 2013).

³³Department of the Army, *Risk Mitigation in the Face of Fiscal Uncertainty* (Jan. 16, 2013).

³⁴Under Secretary of the Air Force, *Fiscal Year 2013 (FY13) Near Term Actions to Handle Budgetary Uncertainty* (Jan. 14, 2013).

Figure 2 provides a detailed timeline of DOD, Office of Management and Budget, and legislative actions taken to plan for and implement the fiscal year 2013 sequestration.

Figure 2: Timeline of Fiscal Year 2013 Sequestration Planning and Implementation at the Department of Defense (DOD)



Sources: GAO analysis of legislation, Office of Management and Budget (OMB) guidance, and Department of Defense (DOD) documents. | GAO-15-470

Budgetary Environment in Fiscal Year 2013

DOD faced a challenging budgetary environment prior to and during the implementation of sequestration in fiscal year 2013 stemming from a continuing resolution, difficulties in determining the total amount of the sequestration reduction, and higher-than-expected costs for overseas contingency operations. For example:

- DOD was operating under a continuing resolution from October 1, 2012 through March 26, 2013, when the full-year appropriation was enacted. The continuing resolution held funding near fiscal year 2012 levels, and limited DOD's budget authority and flexibility to transfer funds. Thus, when the President ordered the sequestration of budgetary resources, DOD had already spent the first five months of fiscal year 2013 uncertain of its funding level.
- In our prior work, we found that DOD faced difficulties determining the total amount of its funding that would be subject to sequestration, and consequently the total size of the reduction, because the Office of Management and Budget's initial estimates of sequestration reductions were based on an amount generated by annualizing the funding available under the continuing resolution in place at the time.³⁵ These estimates were ultimately revised based on different budget amounts provided in the Consolidated and Further Continuing Appropriations Act, 2013. As a result, DOD did not know the final amount subject to sequestration until May 2013, which affected its ability to finalize decisions on allocating funding reductions.
- DOD also experienced higher-than-projected costs for overseas contingency operations than originally planned in fiscal year 2013 due to changing assumptions, such as the drawdown in contract-related services in Afghanistan.

³⁵See [GAO-14-177R](#) and [GAO-14-244](#).

Sequestration
Reduced DOD's
Nonexempt
Discretionary
Resources, Including
Unobligated
Balances, and the
Military Services'
Accounts Absorbed
Most of the
Reductions

In response to the President's sequestration order and OMB's implementing report, DOD's nonexempt discretionary resources were reduced, including those within the operation and maintenance, procurement, RDT&E, and military construction appropriation accounts.³⁶ DOD's use of prior year unobligated balances to meet sequestration reductions varied by appropriation. Because the military services' accounts received a majority of DOD's funding relative to other DOD components, their accounts were reduced by the largest amount to achieve DOD's sequestration reductions.

Sequestration Resulted in
Reductions to DOD's
Nonexempt Discretionary
Resources, but
Reductions Varied within
Appropriation Accounts

DOD's nonexempt discretionary resources experienced sequestration reductions in fiscal year 2013, while the amount and percentage of reductions within accounts varied, based on our analysis of data from a June 2013 DOD report.³⁷ Specifically, due to the differences between the annualized continuing resolution amounts upon which the initial sequestration reductions were based, and the enacted full year appropriations, the size of the percentage reductions for nonexempt discretionary resources differed (see table 1). For example, among the appropriation accounts that we reviewed, RDT&E had the largest reduction as a percentage of its sequestrable base (8.1 percent), while military construction had the smallest (4.4. percent).

³⁶Office of Management and Budget, *OMB Report to the Congress on the Joint Committee Sequestration for FY 2013* (Mar. 1, 2013).

³⁷DOD, Office of the Under Secretary of Defense (Comptroller), *Department of Defense Report on the Joint Committee Sequestration for Fiscal Year 2013*.

Table 1: Reductions in DOD's Nonexempt Discretionary Resources Due to the Fiscal Year 2013 Sequestration

Dollars in millions

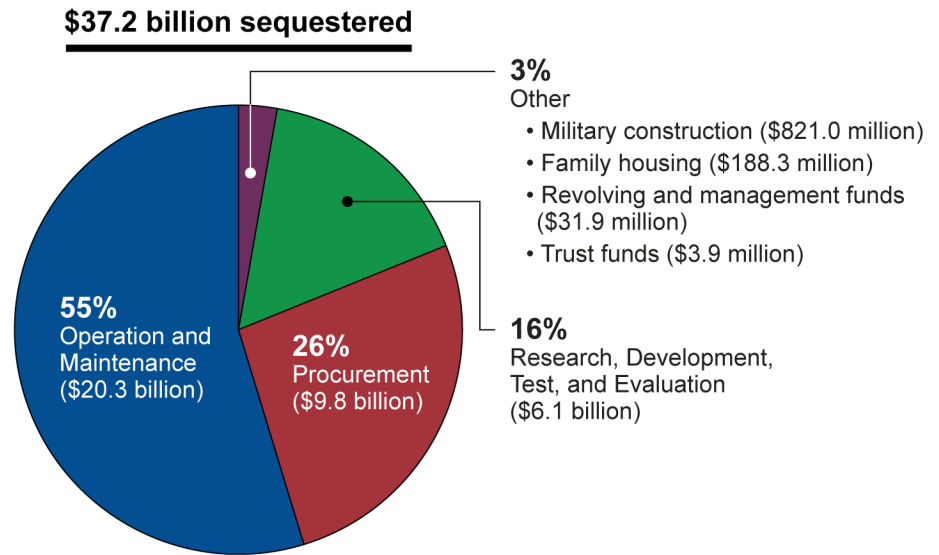
Appropriation account	Sequestrable base	Amount of reduction	Percentage reduction
Operation and maintenance	\$282,248	\$20,327	7.2
Procurement	146,518	9,790	6.7
Research, development, test, and evaluation	74,565	6,055	8.1
Military construction	18,611	821	4.4
Other accounts	5,766	224	3.9
Total	\$527,708	\$37,217	7.1

Source: GAO analysis of Department of Defense, Office of the Under Secretary of Defense (Comptroller), *Department of Defense Report on the Joint Committee Sequestration for Fiscal Year 2013*, (Washington, D.C.: June 2013). | GAO-15-470

Notes: Other accounts include family housing, revolving and management funds, and certain trust funds. The sequestrable base was calculated by the Office of Management and Budget. The sequestrable base reflected the fiscal year 2013 appropriation, which included funding for overseas contingency operations, plus unobligated balances in multiyear accounts from prior fiscal years that remained available for new obligations.

The amount of sequestration reductions within DOD's appropriation accounts was generally proportional to the size of their respective sequestrable base. As a result, operation and maintenance, which had the largest sequestrable base, also had the largest amount of reduced resources due to sequestration. Specifically, reductions to the operation and maintenance accounts were about \$20.3 billion, or about 55 percent of the total DOD sequestration reduction. Figure 3 shows the percentage distribution of sequestration reductions among all of DOD's nonexempt appropriations.

Figure 3: DOD's Fiscal Year 2013 Sequestration Reductions by Appropriation Account



Source: GAO analysis of Department of Defense (DOD) data. | GAO-15-470

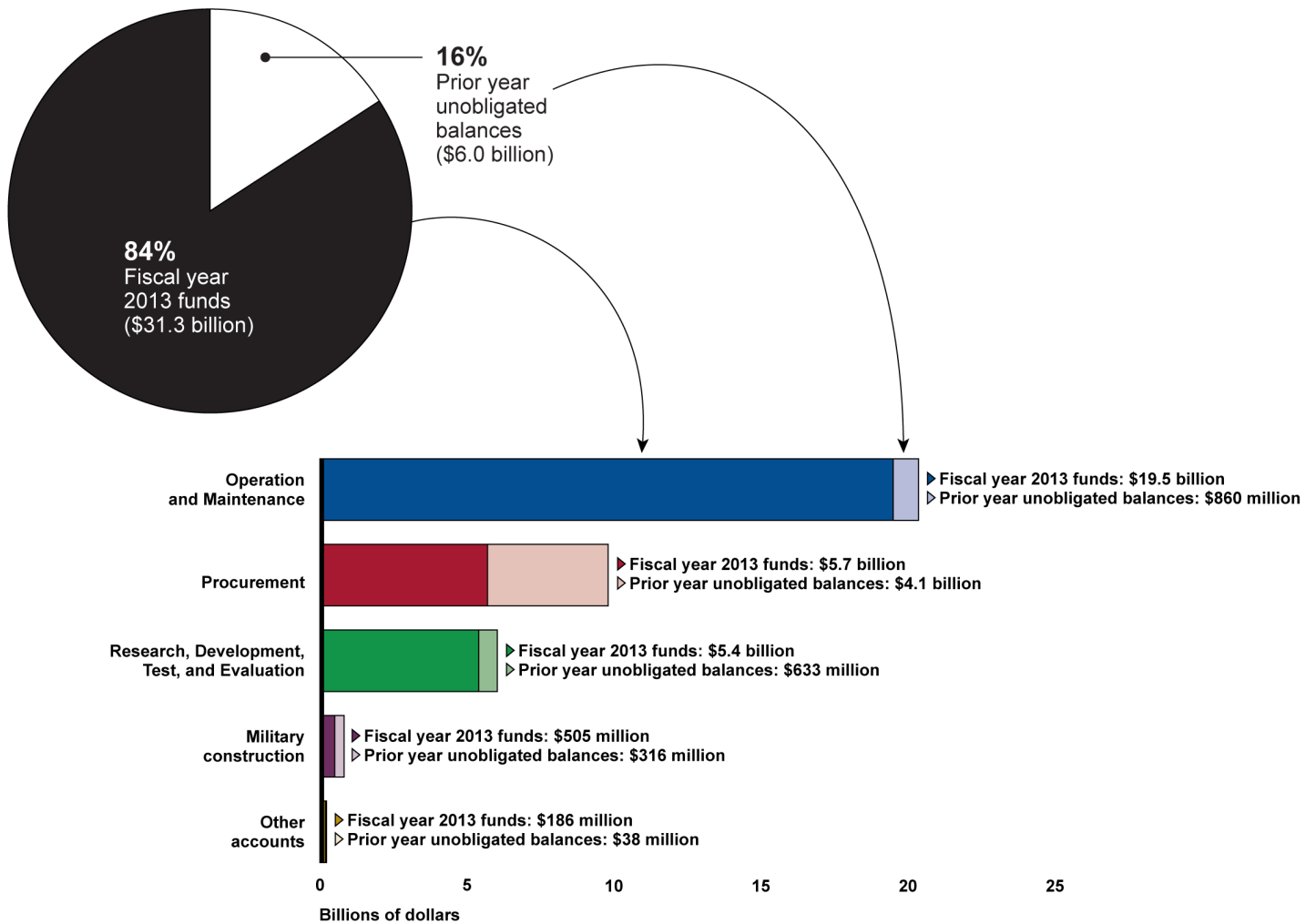
DOD's Use of Available Unobligated Balances to Meet Sequestration Reductions Varied by Appropriation

The use of prior year unobligated balances³⁸ to achieve DOD's sequestration reductions varied by appropriation, ranging from 4.2 percent of the operation and maintenance reduction (about \$860 million) to 42 percent of the procurement reduction (about \$4.1 billion), based on our analysis of data from a June 2013 DOD report. The distribution of fiscal year 2013 sequestration reductions to nonexempt discretionary resources between prior year unobligated balances and fiscal year 2013 funds for each appropriation is shown in figure 4 below.

³⁸Because many of DOD's appropriations are available for obligation for several fiscal years, DOD had significant balances from prior fiscal years still available for new obligations in fiscal year 2013. As noted previously, these unobligated balances were not exempt from sequestration, in part because they were still available for new obligations. See 2 U.S.C. § 905(e). In this report when we refer to prior year unobligated balances, we are referring exclusively to prior year balances that were still available for new obligations, and not to budget authority that remained unobligated after its fixed period of availability had expired, and was no longer available for new obligations.

Figure 4: DOD's Sequestration Reductions to Fiscal Year 2013 Funds and to Prior Year Unobligated Balances by Appropriation Account

\$37.2 billion total sequestration



Source: GAO analysis of Department of Defense (DOD) data. | GAO-15-470

Notes: Numbers may not total due to rounding. Other accounts include family housing, revolving and management funds, and certain trust funds.

The amount and availability of prior year unobligated balances within some appropriation accounts, such as RDT&E and procurement, is due to the multiyear nature of projects and programs funded by these appropriations. For example, as of March 2013, the total amount of available prior year unobligated balances was about \$5 billion for RDT&E

and about \$36.7 billion for the procurement accounts. DOD's use of prior year unobligated balances to help meet sequestration reductions varied by appropriation account type. For example, DOD used about 13 percent, or about \$633 million, of available prior year unobligated balances in the RDT&E accounts and about 11 percent, or about \$4.1 billion, of available unobligated balances in the procurement accounts to achieve sequestration reductions.

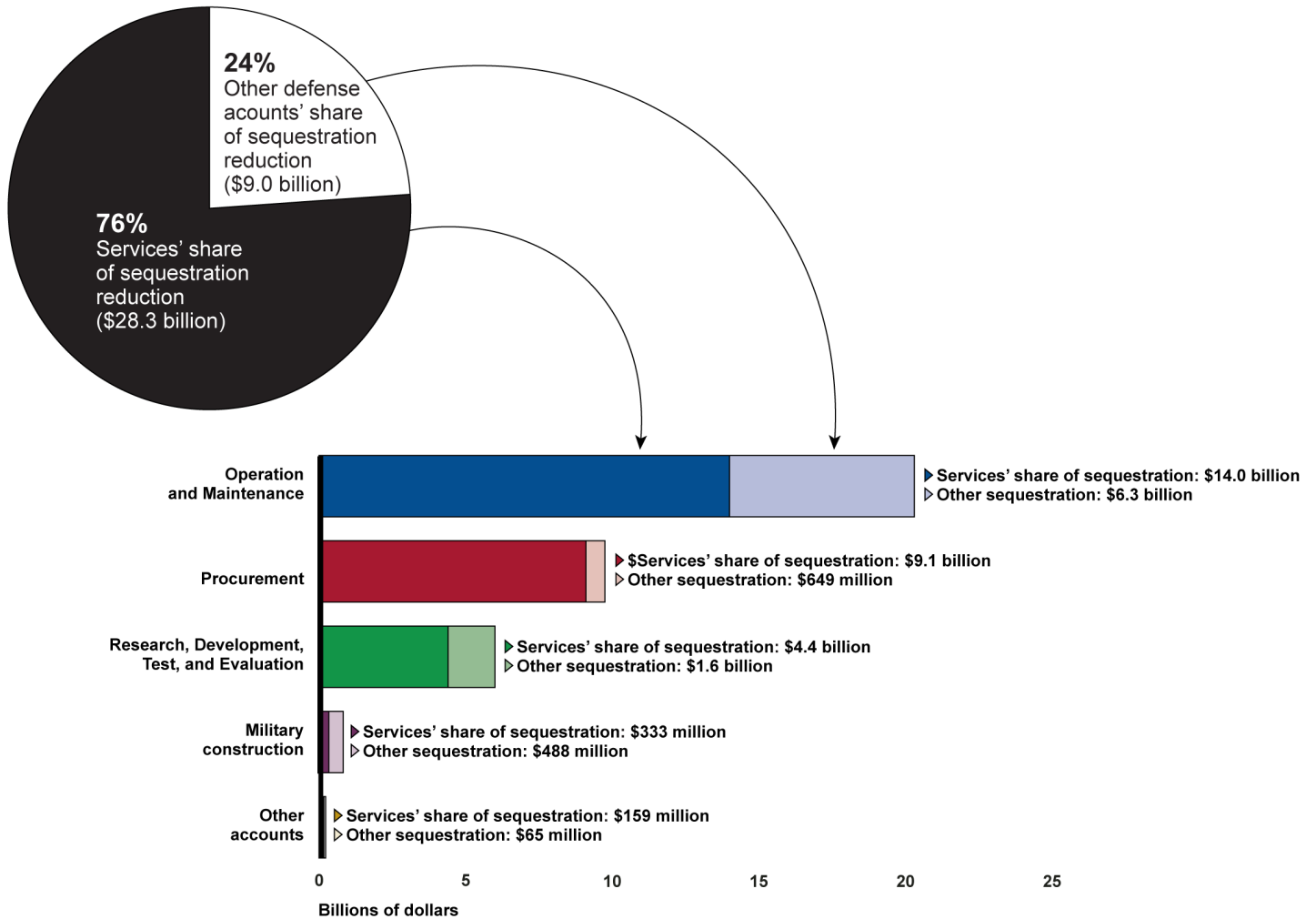
The Military Services' Appropriation Accounts Absorbed the Majority of Sequestration Reductions

As a result of the fiscal year 2013 sequestration, the military services' appropriation accounts were reduced by the largest share relative to other defense accounts because the military services' accounts received a majority of DOD's funding relative to other DOD components.³⁹ Specifically, according to our analysis of data from a June 2013 DOD report and DOD's operation and maintenance budget execution report for the fourth quarter of fiscal year 2013, the military services' accounts were reduced by about \$28.3 billion of the total DOD sequestration reduction of \$37.2 billion (or 76 percent of the reduction). Among the appropriations, sequestration reductions within the military services' accounts included reductions of about \$14 billion for operation and maintenance (or about 69 percent of the reduction within DOD's operation and maintenance accounts) and about \$9.1 billion for procurement (or 93 percent of the reductions within the procurement accounts). Figure 5 illustrates the amount of the reduction that the military services' and other defense accounts absorbed within each appropriation type due to the fiscal year 2013 sequestration.

³⁹Other defense accounts include a combination of appropriation types, such as those that fund the defense-wide agencies and programs (e.g., DOD's Office of Inspector General and the Defense Health Program).

Figure 5: DOD's Fiscal Year 2013 Sequestration Reductions within Military Services' and Other Defense Accounts by Appropriation Account

\$37.2 billion total sequestration



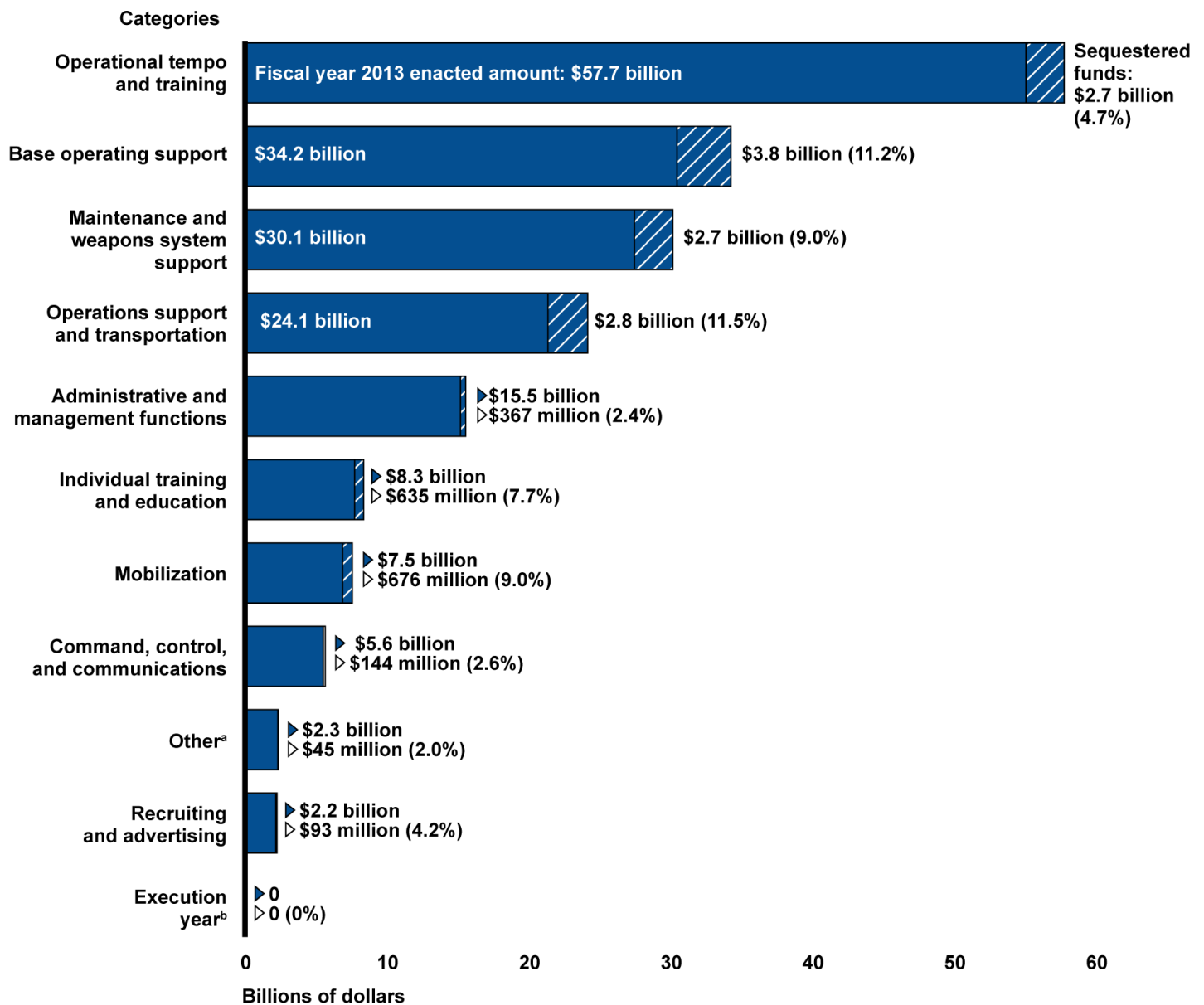
Source: GAO analysis of Department of Defense (DOD) data. | GAO-15-470

Note: Numbers may not total due to rounding.

As discussed above, for the RDT&E, procurement, and military construction accounts, the military services applied the same percentage reduction within an account to each budget line item for their individual weapon systems or other acquisition programs and military construction projects. In contrast, within their operation and maintenance accounts, the military services had the flexibility to allocate sequestration reductions to

specific functions and activities. As shown in figure 6, we found that the military services applied varying sequestration reductions across 11 categories funded by their operation and maintenance accounts.

Figure 6: Amount and Percentage of Fiscal Year 2013 Sequestration Reductions within Categories of the Military Services' Selected Active and Reserve Components' Operation and Maintenance Accounts



Source: GAO analysis of Department of Defense (DOD) data. | GAO-15-470

Notes: Numbers may not total due to rounding. The figure above includes the following active and reserve components' operation and maintenance accounts: Operation and Maintenance, Army; Operation and Maintenance, Navy; Operation and Maintenance, Air Force; Operation and Maintenance, Marine Corps; Operation and Maintenance, Army Reserve; Operation and Maintenance, Army National Guard; Operation and Maintenance Navy Reserve; Operation and Maintenance, Air Force Reserve; Operation and Maintenance, Air National Guard; and Operation and Maintenance, Marine Corps Reserve. It excludes other smaller nonexempt accounts, such as the National Science Center, Army account.

^aThe other category includes subactivity groups that are not included within the other 10 categories.

^bThe execution year category includes subactivity groups related to foreign currency fluctuations and account adjustments, among others.

In particular, we found that four of these categories— operational tempo and training; base operating support; maintenance and weapon systems support; and operations support and transportation—were reduced by approximately \$12 billion. This amount accounted for about 85 percent of the military services' total operation and maintenance reduction.

DOD's Actions Preserved Certain Programs and Functions, but Some Negative Effects Related to the Fiscal Year 2013 Sequestration Were Identified

To implement sequestration in fiscal year 2013, DOD and the military services took steps to preserve certain key programs and functions, while making spending reductions to other lower-priority programs, projects and functions. In interviews and documents we reviewed, DOD and service officials identified negative effects of sequestration across our case studies. Many of the identified effects were interrelated and varied among service components. DOD officials stated that some long-term effects of sequestration were difficult to quantify and assess.

DOD Took Near-Term Actions While Implementing Sequestration Reductions to Preserve Key Programs and Functions

DOD and the military services provided guidance to their subordinate commands and components identifying near-term actions to help plan for and implement sequestration, and the components took a variety of actions in response to this guidance. For example, a Deputy Secretary of Defense January 2013 memorandum directed the components to minimize harmful effects on people, operations, and unit readiness when carrying out their spending reductions.⁴⁰ To that end, the memorandum directed DOD components to fully protect, among other things, funding for wartime operations, and to protect, to the extent feasible, funding most directly associated with readiness and family programs. The memorandum also directed that the components take steps to minimize disruption and additional costs to acquisition programs and military construction projects.

In response to this memorandum, DOD components took steps to protect funding for those higher priorities. For example, based on direction to preserve military readiness and wartime operations, military service officials told us that they protected funding for training for units that were deploying or next to deploy in support of ongoing operations. To ensure child development centers—a type of family program—had enough care providers to maintain accreditation, DOD exempted personnel who worked at these centers from the 6-day administrative civilian furlough.⁴¹ Further, service officials told us they did not cancel any weapon system or other acquisition program, nor did they cancel, defer, or reduce the scope of any major military construction projects, pursuant to verbal guidance from Office of the Secretary of Defense officials.

Sequestration Resulted in Three Key Effects on DOD Programs and Functions, with Some Effects Interdependent and Some Varying by Component

In identifying near-term actions to preserve certain programs and functions, DOD's guidance also identified other steps to reduce lower-priority expenses or investments, such as curtailing travel, training, conferences, and administrative expenses; implementing civilian hiring freezes and terminating temporary hires; reducing base operating funding; cancelling some ship and aviation maintenance; curtailing some facility sustainment, restoration, and modernization projects; and reviewing contracts for possible cost savings. In interviews and

⁴⁰DOD, Deputy Secretary of Defense Memorandum, *Handling Budgetary Uncertainty in Fiscal Year 2013*.

⁴¹Secretary of Defense Memorandum, *Furloughs* (May 14, 2013).

documents we reviewed, DOD and service officials identified some negative effects from these and other steps taken to implement fiscal year 2013 sequestration reductions. The effects identified within and across our case studies were generally related to:

- **Costs and spending:** future financial costs related to contracts or activities and/or inefficient allocation of resources due to the timing or availability of funding.
- **Delayed time frames and cancelled activities:** schedule delays; increases in the amount of time necessary to complete planned activities or functions and/or cancelled activities.
- **Decreased availability of forces and equipment:** reduced global presence and/or limited capabilities and capacities of both military personnel and equipment.

Within a given case study, some DOD components identified little to no effect overall, while others components reported a combination of effects related to costs and spending, time frames or cancellations, and the availability of forces. Appendix I provides additional information about effects from sequestration that were identified by each of the service components across our five case studies.

Service Actions Resulted in Effects Related to Increased Costs and Deferred Spending

Some actions that DOD and the military services took to reduce expenses in fiscal year 2013 increased costs and spending in other areas of the budget during fiscal year 2013 or in a subsequent fiscal year. The following are examples of sequestration-related effects that DOD and service officials identified across our case studies:

- The Navy identified an overall increase in operational costs totaling about \$7.6 million as a result of DOD's decision to delay the deployment of the USS *Harry S Truman* Carrier Strike Group by 4 months. Navy officials explained that the additional cost was associated with maintaining readiness for the carrier strike group by continuing ship and air operations during the deployment delay.
- The Army reported deferring about \$630 million of costs from fiscal year 2013 to fiscal year 2015 to perform maintenance on equipment returning from overseas contingency operations. This amount included maintenance funding for about 13,000 pieces of equipment, or about 9 percent of the approximately 142,000 equipment items the Army planned to repair in fiscal year 2013, among other things.

DOD and Service Actions
Resulted in Effects Related
to Cancelled Activities or
Delayed Time Frames

- Program officials with 4 of the 19 weapon systems we reviewed indicated that increased costs to particular aspects of their activities were due, at least in part, to the fiscal year 2013 sequestration. For example, Navy P-8A Poseidon officials reported that sequestration, in combination with congressional reductions, led to delays in establishing depot maintenance repair capabilities that are anticipated to result in cost savings. According to the officials, the delay in establishing these depot capabilities will defer such cost savings, resulting in a cumulative increase in overall life cycle costs of about \$191 million, of which about \$56.7 million was directly attributed to sequestration.

Actions that DOD and the military services took to reduce spending in fiscal year 2013 resulted in some cancelled activities, schedule delays in beginning activities or projects, or increases in the amount of time necessary to complete them. DOD officials reported the actions also had longer-term effects on weapon systems and plans to restore military readiness in some cases. The following are examples of sequestration-related effects identified by DOD officials across our case studies:

- All four of the military services cancelled or reduced participation in training exercises in fiscal year 2013. For example, the Army ultimately cancelled a total of 7 of 14 planned Combat Training Center exercises in fiscal year 2013, including training for 5 active duty and 2 Army National Guard brigade combat teams. Similarly, the Air Force cancelled or reduced participation in 32 of 48 of its large-scale planned exercises, including two of its key multinational training events. According to service officials, these lost opportunities limited the number of trained individuals and units and contributed to an expected delay in achieving the goal of restoring readiness to forces that have been heavily deployed supporting overseas contingency operations.
- Program officials from 15 of the 19 weapon systems we reviewed reported experiencing delays, in part, due to the fiscal year 2013 sequestration. For example, according to officials from the Army's AH-64E Apache helicopter program office, the combined effects of the fiscal year 2013 sequestration and the continuing resolution affected the timeline for acquisition decisions for the AH-64E Apache in fiscal years 2013 and 2014, which resulted in contract changes and delays to time frames for evaluating and negotiating the system's contract.
- DOD and service officials stated that all five DOD military construction accounts with sequestration reductions reported delays in awarding contracts for construction projects appropriated in fiscal year 2013.

Service Actions Resulted
in Effects Related to
Decreased Availability of
Forces and Equipment

For example, the Navy did not award contracts for 33 out of 54 construction projects funded in fiscal year 2013. In contrast, the Navy did not award contracts for 17 out of 57 projects funded during fiscal year 2012. Project management officials from the service components stated that fewer projects were awarded than planned in fiscal year 2013—which could lead to corresponding delays in project completion and increased costs—but were unable to quantify the longer-term effects on time frames or costs.

Some actions the services took to reduce spending in fiscal year 2013 decreased the availability of forces and equipment, reduced global U.S. military presence, and increased risk by limiting some service capabilities and capacity for responding to contingencies or other emergencies. The following are examples of sequestration-related effects identified by DOD officials across our case studies:

- The Navy cancelled or delayed some planned ship deployments in fiscal year 2013, which resulted in a 10 percent decrease in its deployed forces worldwide. For example, due to spending reductions, the Navy cancelled the deployments of the USNS *Comfort* and its supporting medical units, the USS *Kauffman*, and a maritime civil affairs team to the U.S. Southern Command area of responsibility.⁴² The Navy also postponed other deployments, such as delaying by 4 months the deployment of the USS *Harry S Truman* Carrier Strike Group to the U.S. Central Command area of responsibility. This delay reduced the Navy's presence in the region to one carrier strike group.
- Naval Air Systems Command reduced funding to perform maintenance on and recertify about 800 weapons and weapon components—about 50 percent of those planned at the beginning of fiscal year 2013. According to Navy officials, deferring maintenance on these weapons and weapon components contributed to shortfalls in the availability of some weapons and necessitated the transfer of weapons across ships to conduct planned training and operations.
- Five of the eight active component Air Force commands we interviewed told us that some of their installations experienced reduced levels of fire and emergency response personnel or related

⁴²Each of DOD's six geographic combatant commands has defined areas of operation and a distinct regional military focus. The five other geographic combatant commands are U.S. Africa Command, U.S. Central Command, U.S. European Command, U.S. Northern Command, and U.S. Pacific Command.

equipment, fewer security force personnel and vehicles than needed, or both. Air Force officials said the shortfalls decreased their response capability for attending to critical incidents like aircraft fires or fuel spills, and to the air base defense program. However, officials were unable to quantify the specific number of personnel shortfalls or risk based on decisions to reduce funding for these base services.

- Program officials for 9 of 19 weapon systems we reviewed reported reduced or deferred system development or procurement efforts as a result of fiscal year 2013 sequestration reductions, which in turn delayed the release of these enhanced systems to the warfighter. For example, Army MQ-1C Gray Eagle unmanned aircraft system program officials told us that a reduction in procurement funds due to sequestration resulted in deferrals and delays for procuring a number of upgrades to the system, including radio upgrades, new shipping containers, and an engine lifetime extension. These deferrals could, in turn, delay the eventual fielding of the upgraded aircraft to the warfighter, since they increase the risk that the system may not receive necessary certifications that it is safe and suitable for use.

Many Sequestration Effects Were Interdependent, and Some Effects Varied among Service Components

Our analysis of DOD- and service-identified actions found that many of the reported sequestration-related effects were interdependent and overlapped. For example, delays in scheduled time frames often led to an additional cost or a spending increase in future fiscal years. Similarly, both increased costs and delayed time frames were also related to the reduced availability of forces and equipment in some cases. Based on interviews with service officials and our analysis of related documentation, we found some instances of interrelated effects across our case studies. For example:

- Due to spending reductions on some base operating support activities, the Navy limited its port operations to normal business hours. As a result, one Navy command estimated that it cost an additional \$135,000 over its budgeted operating expenses for three ships to delay their arrival to port and auxiliary steam because they could not connect to shore power outside of the restricted port hours.
- Officials from the Navy's CH-53K King Stallion helicopter program office told us that sequestration reductions contributed to a 2-month delay to the program's schedule, including the start of low-rate initial production, where small quantities of the system are produced for testing and evaluation before producing greater quantities for fielding. These officials told us the delays affected acquisition milestones and the fielding of a more capable helicopter, and estimated that

sustaining the program for an additional 2 months would increase estimated program costs by about \$20 million to \$30 million.

Within our case studies, we also found that sequestration effects varied in type among different services and their components. For a given case study area, some components identified little to no effect overall, while other components reported a combination of effects related to costs and spending, time frames or cancelled activities, and to the availability of forces. For example, some service command officials we interviewed told us that they were not aware of any significant negative effects on base operating support within their command or component with regard to the availability of personnel or equipment. While some Air Force commands did report negative effects due to sequestration, as noted earlier, four other Air Force commands reported to us that they were able to accomplish their missions in fiscal year 2013 without any critical disruptions to the delivery of base support services. Also, officials from the Marine Corps and Marine Corps Reserve told us that there were no significant effects to base operating support due to sequestration.

Other Effects of Sequestration Are Difficult to Quantify and Assess and May Not Be Fully Realized for Years

Based on our review of service documentation and interviews with service officials, sequestration reductions resulted in some effects that are difficult to quantify and assess and are therefore undetermined at this time. These types of effects include, among others, a decline in morale, the ability to hire and recruit a high-caliber civilian workforce, and the ability to build and maintain partner nation trust. In addition, our prior work found that, according to service officials, the 6-day civilian furlough during fiscal year 2013 negatively affected morale among civilian employees as well as service members.⁴³

Officials from three of the military services also told us they believe the fiscal year 2013 sequestration has continued to affect their ability to recruit civilian and military personnel, but the effects on recruitment were undetermined at the time of our review and may not be quantifiable. For example, Navy officials told us they believe that the cancellation of fleet weeks and 27 of 30 Blue Angel squadron flight demonstrations in fiscal year 2013 could affect their future recruitment rates because those events are critical to their recruitment strategy.

⁴³[GAO-14-529](#).

Further, officials from the Air Force and Navy said that reducing and cancelling exercises and deployments can negatively affect their ability to build and maintain partner nation trust, which is difficult to quantify. For example, Pacific Air Force documentation shows that the command reduced or cancelled their participation across several bilateral and multilateral training exercises. Officials said this likely affected their ability to build trust and partner capacity in the region and moreover, could give the appearance to other partner nations that the United States is an unreliable or uncommitted partner. Pacific Air Forces officials said that they would consider making different choices should sequestration occur again, because of concerns about the United States appearing unreliable or uncommitted to its partners, and the effect that lost trust could have on future U.S. participation in the region. Similarly, Pacific Fleet officials said that reductions to fuel as a result of sequestration limited participation in exercises and foreign country port visits in Seventh Fleet, which is assigned to support U.S. Pacific Command, and that cancelled deployments limited participation in support of partnership events in Fourth Fleet, which is assigned to U.S. Southern Command. Pacific Fleet officials said that these cancelled or reduced commitments would affect the Navy's ability to engage and build relationships with partner nations.

The fiscal year 2013 sequestration resulted in other effects that may not be known for years, such as the future costs associated with facilities repair and equipment maintenance projects that were deferred during fiscal year 2013. For example, in fiscal year 2013 the Army reduced funding for facilities sustainment projects, including preventative maintenance and repairs, by nearly \$1 billion dollars, which represented about 40 percent of its fiscal year 2013 base budget request. Officials told us there may be an increased future cost to restore facilities to standards, but were unable to determine the additional cost.⁴⁴ Likewise, Navy officials stated that the deferral of many non-emergency maintenance and sustainment activities may eventually diminish facility life cycles and lead to higher future costs for restoration or demolition, but these officials were unable to determine the increased costs.

⁴⁴We previously concluded that deferring facilities sustainment will likely result in continued facility deterioration and higher future costs. See GAO, *Defense Infrastructure: Continued Management Attention Is Needed to Support Installation Facilities and Operations*, [GAO-08-502](#) (Washington, D.C.: Apr. 24, 2008); and GAO, *Defense Infrastructure: DOD Needs to Periodically Review Support Standards and Costs at Joint Bases and Better Inform Congress of Facility Sustainment Funding Uses*, [GAO-09-336](#) (Washington, D.C.: May 30, 2009).

DOD Used Available Means to Mitigate the Effects of Sequestration, but Has Not Consistently Documented and Shared Best Practices or Lessons Learned

DOD and the military services generally relied on previously existing processes and funding flexibilities, such as the ability to reprogram and transfer funds, to mitigate the effects of the fiscal year 2013 sequestration. Our review identified some limited efforts to document decisions or lessons learned from implementing the fiscal year 2013 sequestration, but DOD and the military services did not comprehensively document, assess, or share best practices or lessons learned from their experiences.

DOD Relied on Existing Processes and Funding Flexibilities to Manage Sequestration

DOD did not receive specific additional authorities to help manage fiscal year 2013 sequestration reductions, but according to DOD and military service officials, they relied on guidance and previously existing processes and flexibilities for managing reduced resources to help mitigate the effects of sequestration. Guidance provided before and after the President's sequestration order emphasized that federal agencies should identify appropriate steps to manage budgetary uncertainty while minimizing any adverse effects to agency missions. For example, an Office of Management and Budget memorandum on planning for budgetary uncertainty in fiscal year 2013 directed federal agencies to use any available flexibility to reduce operational risks and minimize effects on the agency's core mission.⁴⁵ Similarly, a DOD memorandum on handling budgetary uncertainty authorized its components to begin implementing near-term actions, reversible if possible, to mitigate the risks caused by the continuing resolution in place at the time, and potential sequestration.⁴⁶

In response to this guidance, DOD and the military services took various actions to mitigate the effect of sequestration, such as establishing processes to identify priorities and evaluate alternatives for spending

⁴⁵Office of Management and Budget, *Planning for Uncertainty with Respect to Fiscal Year 2013 Budgetary Resources*, Memorandum M-13-03 (Jan. 14, 2013).

⁴⁶DOD, Deputy Secretary of Defense Memorandum, *Handling Budgetary Uncertainty in Fiscal Year 2013* (Jan. 10, 2013).

reductions. In some cases, the military services leveraged existing approaches, such as ranking programs and functions, to manage sequestration reductions within their commands and program offices. For example, according to Army budget officials, the Army utilized a process referred to as a sequestration “Rehearsal of Concept” drill to identify priorities Army-wide and implement reductions. According to Army officials, a Rehearsal of Concept drill is generally used to inform operational decisions, but this drill was used for the fiscal year 2013 sequestration to involve relevant stakeholders and establish priorities across the range of programs and activities that would be affected by sequestration reductions. Army Forces Command officials informed us that in addition to the Rehearsal of Concept drill, the Army also relied on a process referred to as a “Focus Area Review Group” to manage sequestration reductions in an effort to maintain readiness and minimize risks to the Army’s forces and missions.

Service officials also noted that broadening some of their existing processes removed stove-pipes to planning and allowed them to integrate requirements and plan command- or service-wide rather than by individual functional area. For example, to implement the fiscal year 2013 sequestration reductions at the major command level, Air Combat Command officials adapted their existing planning process by grouping all of the command’s functions and activities into three categories based on their relative funding priority. Officials told us that considering requirements command-wide rather than by directorate or functional area, as they had done prior to fiscal year 2013, gave them better visibility over the interrelationship of funding and allowed them to make more informed decisions about what functions and services were needed to maintain their commitment to readiness. For example, command officials said this allowed them to consider and balance the need for base operating support funding for utilities and building leases against other priorities such as their flying hour program.

Using these processes to prioritize funding, the services were able to mitigate some effects to those activities deemed the most critical based on DOD and service guidance, while reducing funding to lower priority activities. Within the areas we selected for more in-depth review, we found that the services prioritized areas, such as training and equipment maintenance in support of deployed and next-to-deploy forces and base services like family and warfighter support programs. For example, we found the military services prioritized funding for base support services over funding for facilities, sustainment, restoration, and modernization projects because base support services fund essential functions like

family programs, civilian salaries, and utilities. According to our analysis of DOD's fiscal year 2013 budget data, the services reduced facilities, sustainment, restoration, and modernization funds by about \$2.8 billion or almost 27 percent of the enacted funding amount, which was almost three times as much as the approximately \$1 billion, or 4 percent reduction to base operating support services. Furthermore, the military services prioritized funding to support training and equipment maintenance for currently deployed and next-to-deploy forces, while cancelling or curtailing training and maintenance for non-deploying units. For example, all four of the military services reported being able to fulfill combatant commanders' requests for forces in fiscal year 2013, but said that reductions in training for non-deploying units affected the readiness of these forces.

DOD also used existing funding flexibilities to manage sequestration reductions and other budgetary constraints in fiscal year 2013, such as the ability to establish funding priorities for certain accounts, use prior year unobligated balances to achieve some portion of the sequestration reductions, and use reprogramming and transfer authorities to realign funds between and within accounts. For example, with regard to the operation and maintenance accounts, DOD officials said they had more flexibility in allocating sequestration spending reductions than they did for other accounts. Specifically, the program, project, and activity for operation and maintenance was defined at the overall account level. According to officials from DOD and some military services, this provided the flexibility to establish funding priorities for specific activities within accounts and reduce funding for lower priority activities. This is in contrast to the program, project, and activity definitions for the RDT&E, procurement, and military construction appropriation accounts. For these accounts, DOD and the services had to apply reductions evenly across each budget line item for their individual weapon systems or other acquisition programs and military construction projects.⁴⁷

⁴⁷The Balanced Budget and Emergency Deficit Control Act of 1985, as amended, required DOD to apply sequestration reductions evenly at the program, project, and activity level for each of its accounts. For RDT&E, procurement, and military construction accounts, the program, project, and activity level was defined as the most specific budget item identified in the Consolidated and Further Continuing Appropriations Act, 2013, classified annexes and explanatory statements to that act, or certain agency budget justification materials; this level of detail would include individual weapon systems or other acquisition programs and military construction projects.

As discussed earlier, DOD and the military services also reported using prior year unobligated balances to help meet fiscal year 2013 sequestration reductions within their RDT&E, procurement, and military construction accounts. According to some DOD and service officials, the use of unobligated balances within the RDT&E and procurement accounts helped them offset some sequestration reductions and minimize the effect those reductions may have otherwise had. For example, according to Air Force officials the use of prior year unobligated balances, among other factors, allowed them to protect their top weapon systems and other acquisition programs and avoid some schedule delays.

DOD also used its transfer and reprogramming authorities to help mitigate the effects of sequestration and other budgetary constraints in fiscal year 2013. DOD officials said that transfer and reprogramming flexibilities are used annually to address funding priorities. However, the use of transfers and reprogrammings helped them mitigate reduced resources as a result of sequestration as well as to cover expenses related to overseas contingency operations shortfalls and emergent operational requirements, among other factors. Our review of DOD data found that the department used most of its available transfer authority and realigned most of these funds into the operation and maintenance accounts from other types of accounts. Specifically, according to data from Office of the Under Secretary of Defense (Comptroller) officials, of the \$7.5 billion in transfer authority available to DOD for fiscal year 2013, DOD utilized \$6.8 billion, or about 91 percent of the authority in total. Using these authorities, DOD had the flexibility to move funds between appropriations and in doing so provided additional resources to the operation and maintenance accounts. Our analysis also found that DOD transferred about \$5.7 billion into the operation and maintenance accounts from other appropriations, primarily from the military personnel and procurement accounts.⁴⁸

The use of transfers and reprogrammings allowed the services to mitigate or reverse some actions that were taken initially after the March 1, 2013 sequestration order. For example, in July 2013, the Air Force resumed

⁴⁸We limited our analysis to prior approval reprogrammings, as defined in DOD's financial management regulation. See DOD Financial Management Regulation 7000.14-R, Volume 3, Chapter 6 (March 2011). Certain transfers of funds between appropriations, among other types of fund realignments, require prior congressional approval. We did not include other types of reprogrammings in our review, such as letter, internal, and below-threshold reprogrammings.

flight operations for 17 active duty combat units that had initially ceased flying in April 2013. The Navy also restored planned maintenance for eight surface ships that had been initially deferred. Similarly, DOD used transfer or reprogramming authorities to move funds from prior years and cancelled projects unrelated to sequestration, to offset the \$821 million sequestration reduction within the military construction accounts. DOD and service officials stated that as a result of this flexibility, no construction projects were delayed, reduced in scope, or cancelled as a result of sequestration.

Notwithstanding the flexibility to transfer and reprogram funds, some actions taken in response to sequestration could not be reversed, and some of the programs we reviewed within the RDT&E and procurement accounts also had their funding further reduced by transfer and reprogramming actions. For example, Army training officials stated capacity constraints at their Combat Training Centers and the timing of funds reprogrammed later in the fiscal year affected the Army's ability to reschedule cancelled Combat Training Center rotations. In addition, we found that several acquisition programs for weapon systems included within our RDT&E and procurement case study had their funding reduced as a result of transfers or reprogrammings beyond the sequestration reductions, including the AH-64E Apache helicopter and F-15 and F-22 aircrafts. According to Air Force F-15 officials, about \$24 million in RDT&E and procurement funding was transferred to support critical readiness shortfalls within the Air Force's operation and maintenance account.

DOD and the Services Have Not Consistently Documented, Assessed, and Shared Best Practices or Lessons Learned from Implementing and Managing Sequestration

Consistent with GAO's March 2014 recommendation, the Office of Management and Budget updated its guidance to federal agencies in November 2014 to include a section specific to sequestration.⁴⁹ This guidance instructs federal agencies to record decisions about how sequestration is implemented to maintain consistency from year to year, inform efforts to plan for sequestration in future years, and build institutional knowledge.⁵⁰ Although the Office of Management and Budget's guidance was revised after the end of fiscal year 2013 and does not explicitly require agencies to record decisions regarding the fiscal year 2013 sequestration, federal internal control standards also highlight the importance of documenting significant events in a timely manner.⁵¹ Specifically, these standards state that agencies should identify, record, and distribute pertinent information to the right people in sufficient detail, in the right form, and at the appropriate time to enable them to carry out their duties and responsibilities and ensure that communications are relevant, reliable, and timely.

During our review, we found that DOD and the services had taken some steps to document decisions and actions taken in response to reduced resources in fiscal year 2013. For example, according to officials from the Office of the Under Secretary of Defense (Comptroller), their office had documented decisions on sequestration reductions at the program, project, and activity level with the release of their June 2013 report, *DOD Report on the Joint Committee Sequestration for Fiscal Year 2013*. These officials also told us that throughout the implementation of sequestration in fiscal year 2013, their office collected information from the military services on programs, projects, and activities that were cancelled due to sequestration and reported this information to the Office of Management and Budget. In addition, some officials within the services' budget offices confirmed that sequestration reductions at the program, project, and activity level had been documented in their financial management systems.

⁴⁹GAO-14-244 and Office of Management and Budget, Circular No. A-11 *Preparation, Submission, and Execution of the Budget*.

⁵⁰Office of Management and Budget, Circular No. A-11 *Preparation, Submission, and Execution of the Budget*.

⁵¹GAO-AIMD-00-21.3.1

Officials from all of the services also informally identified some lessons learned from their experiences implementing sequestration. Officials told us that prior to sequestration, they had not considered or were not fully aware of the interdependency of certain programs and activities, the order in which certain functions would need to have funding restored to accomplish intended results, or the potential for unintended consequences as a result of some funding decisions. For example, Army officials told us that shortfalls in funding for training ranges and facilities affected the Army's ability to conduct training for some units whose resources had been reduced due to sequestration. Army Forces Command officials explained that unit readiness continued to decline through fiscal year 2014 even though funding had been restored for its units until ammunition distribution, maintenance, transportation, and training range services were also restored.

Further, Air Force officials identified the need to balance reductions between operational and individual training requirements, and noted that both preserving funding for individual training and education requirements and maintaining a commitment to provide ready forces for operations are important to the long-term health of the force. Similarly, officials from the Navy said that some actions taken, such as not exempting all shipyard civilians from furloughs or not performing preventative maintenance, had unintended consequences for maintenance schedules or resulted in increased costs overall. Specifically, Navy officials told us a decision to defer preventative maintenance repairs to a damaged landing ramp later resulted in an approximately \$600,000 cost to repair a landing craft when loose concrete damaged its engine. While officials said it is difficult to know which decisions may lead to higher costs, they noted the importance of understanding the interrelationship between funding and potential consequences from funding decisions. Further, according to a Marine Corps budget official, planning for sequestration in fiscal year 2013 allowed the Marine Corps to better understand the potential effects that reductions would have across their commands and within functional areas, which informed their budgetary planning in fiscal years 2014 and 2015.

Our review found that the Joint Staff and two of the services had undertaken initiatives to document lessons learned or best practices from implementing sequestration. Specifically:

- Officials from the Joint Staff Manpower and Personnel directorate said that in June 2013 they gathered effects and lessons learned specific to DOD's civilian furlough in fiscal year 2013. Officials told us that

these efforts were not formally documented in a report or the Joint Staff's Lessons Learned Information System, but the lessons and effects identified would help to inform decision-making should another civilian furlough occur.

- Similarly, in November 2013, the Navy Warfare Development Command completed a review of the effects and lessons learned stemming from the civilian furlough. This review identified costs, savings, and effects associated with furloughing civilians in fiscal year 2013, as well as lessons learned and recommendations should civilian furloughs occur again. For example, the review found that almost half of the savings from furloughing Fleet Forces Command and Pacific Fleet civilians was lost due to costs from schedule delays or lost productivity, and recommended that the Navy fully consider the interdependencies between the reductions in civilian workforce and the Navy's capacity to meet fleet requirements should a furlough occur again.
- At the time of our review, the Air Staff Lessons Learned directorate was finalizing its review of information gathered from its active and reserve components on the Air Force's implementation of sequestration, its effect on readiness and infrastructure, and any lessons learned that could inform future decision-making should sequestration occur again. Air Force officials told us that they plan to release a final report identifying their observations and lessons learned at the end of May 2015, which they expect to share across the Air Force and on the Joint Staff's Lessons Learned Information System.

The Joint Staff, Navy, and Air Force's initiatives represent positive steps towards documenting lessons learned and best practices from implementing sequestration. However, the information produced through these and other DOD efforts is limited in scope and purpose, are still ongoing, and have not been widely shared across the services. For example, the scope of the Joint Staff's and Navy's reviews was limited to lessons learned from the civilian furlough and the Air Force's initiative is still ongoing. As a result, it remains unclear whether or how applicable either of the services' lessons learned will be in informing their future budgetary planning and decision making. Moreover, officials from the Army, Marine Corps, and Office of the Under Secretary of Defense (Comptroller) told us they were unaware of the Joint Staff, Navy, and Air Force's initiatives, suggesting that some information on lesson learned efforts is not being disseminated across DOD and the services.

There are existing processes in place to share information on lessons learned across DOD and the services. For example, three of the services' lessons learned offices told us that in addition to maintaining their own lessons learned databases, the Joint Staff's Joint Lessons Learned Information System can be used to document and share lessons learned identified across the services.⁵² Further, officials from Navy Warfare Development Command told us that they learned about the Air Force's efforts to document sequestration-related lessons learned through a quarterly Joint Lessons Learned Program review. According to officials from the Navy Warfare Development Command, the services' lessons learned offices participate in these quarterly reviews, which are led by the Joint Staff's Lessons Learned directorate and can be used to share lessons learned and best practices across the services.

Although DOD and some services have independently taken some steps to document decisions and lessons learned from sequestration, they did not establish requirements for their commands and components to document or assess information on best practices or lessons learned, as identified by the Office of Management and Budget's guidance and federal internal control standards. According to DOD and some service officials, as of February 2015, they were unaware of or had not taken steps to comply with the Office of Management and Budget's guidance to document the decisions concerning implementation of sequestration. In February 2015, officials from the Office of the Under Secretary of Defense (Comptroller) told us that, in their opinion, documenting decisions on sequestration reductions at the program, project, and activity level within their financial management systems effectively complied with the Office of Management and Budget's guidance and that they did not plan to take any additional steps to document lessons learned in response to the guidance.

Officials with the Office of the Under Secretary of Defense (Comptroller) and some of the military services also told us they did not see the value in documenting or assessing past decisions or gathering such information beyond the efforts they have already made. For example, officials with the Office of the Under Secretary of Defense (Comptroller) explained that the weekly reports provided to the Office of Management and Budget on

⁵²The Joint Lessons Learned Information System is an electronic database used by DOD stakeholders and organizations to facilitate the collection, management, and sharing of issues and lessons learned, to improve the development and readiness of the joint force.

actions taken in response to sequestration in fiscal year 2013 have not been used to provide a comprehensive assessment of sequestration's effects. According to these officials, they consider each sequestration event to be unique and said that they would issue subsequent guidance to the components on how to implement any future instances of sequestration at that time, should it occur. However, these officials did acknowledge that consolidating policy memorandums and documentation regarding management actions taken during the fiscal year 2013 sequestration so that these decisions are easily accessible across the department might be beneficial to planning for a possible future sequestration.

DOD's efforts to document sequestration decisions within their financial accounting systems could provide some visibility over how the department allocated sequestration reductions to inform future planning efforts. Yet these decisions are not inclusive of the broader principles and practices used by the department to manage sequestration reductions in fiscal year 2013 and do not account for any lessons learned during the implementation of sequestration. Without documenting, assessing, and sharing DOD's and the services' best practices and lessons learned from implementing sequestration, including, for example, strategies for evaluating the interdependence of various funding sources subject to budgetary reductions, DOD is missing an opportunity to gain valuable institutional knowledge that would help facilitate future decision making about budgetary reductions should sequestration occur again.

Conclusions

DOD received relief in fiscal years 2014 and 2015 from the spending caps established by the Budget Control Act of 2011, but under current law, DOD could experience sequestration again in future fiscal years, depending on the appropriations enacted for fiscal year 2016 and beyond. In fiscal year 2013, DOD was able to reduce the effects of sequestration on programs that the department and the military services determined to be high priorities. However, the reductions that did occur had a variety of effects, including cancelled training exercises and delays in performing equipment maintenance, contracting for military construction projects, and developing and procuring weapon systems, among others, as well as longer-term effects that may be hard to determine. Given that some budget flexibilities the department used in 2013 to mitigate the size of reductions may be unavailable in future years—for example because of a decrease in available prior year funds for transfer or reprogramming—it is all the more important that DOD be able to use the institutional knowledge it gained when implementing sequestration in fiscal year 2013. In light of

this possibility and other ongoing budget uncertainties, the department could benefit from a close examination of its experience with sequestration in fiscal year 2013. Some decision makers tasked with implementing the 2013 sequestration gained valuable insights into how to manage budget reductions, for example by gaining visibility over the interrelations between various budget accounts and the effect of the reductions to some accounts on carrying out activities funded by other accounts. However, without documenting, assessing, and sharing information on lessons learned and best practices in implementing the 2013 sequestration reductions across the department and leveraging existing mechanisms to share this information, decision makers at the program, DOD component, and department-wide levels may not benefit from such insights.

Recommendations for Executive Action

To better enable DOD and the services to achieve informed decision making in future times of budgetary uncertainty, the Secretary of Defense should direct the Under Secretary of Defense (Comptroller) and the secretaries of the military departments to take the following two actions:

- Document and assess lessons learned and best practices from implementing sequestration in fiscal year 2013. These lessons could include such practices as evaluating the interdependence of different types of funding sources to better understand how those can be synchronized to optimize capacity and minimize disruptions to training and readiness in the event of future budgetary constraints; and
- Leverage existing information-sharing mechanisms to make these lessons learned and best practices available to decision makers within the services and across the department.

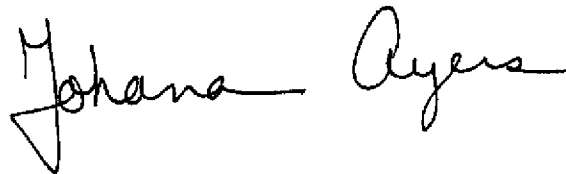
Agency Comments

We provided a draft of this report to DOD for review and comment. In its written comments, DOD concurred with our two recommendations. Specifically, DOD stated that the Office of the Under Secretary of Defense (Comptroller) will work with the military services to develop a repository of lessons learned and best practices gathered from implementing the fiscal year 2013 sequestration. DOD also stated this office will develop a Web portal accessible from across the department to house the lessons learned and best practices. DOD stated the target date for completion of both efforts is December 2015.

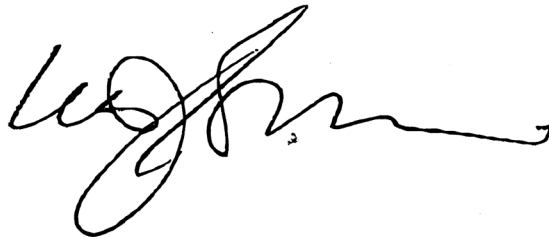
DOD's comments are reprinted in their entirety in appendix IV. DOD also provided technical comments, which we incorporated into this report, where appropriate.

We are sending copies of this report to appropriate congressional committees; the Secretary of Defense; the Under Secretary of Defense (Comptroller); the Secretaries of the Army, Navy, and Air Force; and the Commandant of the Marine Corps. In addition, the report will be available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact Johana R. Ayers at (202) 512-5741 or ayersj@gao.gov, or Michael J. Sullivan at (202) 512-4841 or sullivanm@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix V.



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Appendix I: Case Study Observations

Our review included the sequestration reductions applied by the Department of Defense (DOD) in fiscal year 2013 to its base and overseas contingency operation funding⁵³ within the following nonexempt appropriation accounts: operation and maintenance; research, development, test and evaluation (RDT&E); procurement; and military construction.⁵⁴ This appendix contains more detailed information for each of the five nongeneralizable case studies included in our review. We selected these case studies by identifying five types of expenses or investments to represent each type of nonexempt appropriation, to include:

1. operation and maintenance accounts: military service components' operational tempo and training;
2. operation and maintenance accounts: military service components' maintenance and weapon systems support;
3. operation and maintenance accounts: military service components' base operating support;
4. RDT&E and procurement accounts: a selection of defense-wide and military services' acquisition programs for weapon systems; and
5. military construction accounts: defense-wide and military services' major military construction projects.

⁵³While funding requested as part of DOD's base budget supports the normal, day-to-day operations of the department, DOD also receives additional funds, referred to as overseas contingency operations appropriations, to pay for incremental costs that have resulted from the war in Afghanistan and other contingency operations. Department of Defense Financial Management Regulation 7000.14-R, Vol. 12, Ch. 23 (September 2007), defines incremental costs as costs that would not have been incurred had the contingency operation not been supported.

⁵⁴Certain defense-related programs, projects, and activities were exempted from sequestration in fiscal year 2013. For example, the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, permits the President (subject to certain requirements) to exempt military personnel accounts, and the Office of Management and Budget notified Congress of the President's intent to do so for fiscal year 2013 on July 31, 2012. Other defense-related accounts exempted from sequestration included the Department of Defense Medicare-Eligible Retiree Health Care Fund as well as all programs administered by the Department of Veterans Affairs. In this report, we refer to the operation and maintenance; research, development, test, and evaluation (RDT&E); procurement; and military construction accounts within our scope as *nonexempt* accounts because they were subject to sequestration. We did not include certain other nonexempt accounts (e.g., Environmental Restoration, Army; Afghanistan Security Forces Fund) within the scope of our case studies because they comprised a small portion of DOD's budget in fiscal year 2013.

More detailed information on our approach to selecting the case studies can be found in appendix II.

In this appendix, for each case study, we provide a summary that includes information on the following elements:

- **Overview:** A description of the types of programs, projects, and/or activities funded within the case study and the corresponding budgetary resources for fiscal year 2013.
- **Allocation of sequestration reductions:** A summary of how sequestration reductions were allocated within the case study area, including differences in how reductions were applied within DOD components.
- **Sequestration effects:** A description of sequestration-related effects within each case study area are generally grouped by categories of costs and spending; delayed time frames or cancelled activities; availability of forces and equipment; and, where appropriate, effects that are undetermined or difficult to quantify.
- **Mitigation efforts:** A summary of the flexibilities applied and actions taken by DOD components to mitigate the effects of sequestration reductions within the various case studies, including such things as the use of prior year unobligated balances,⁵⁵ transfer and reprogramming authorities, and other case-study- or component-specific initiatives.⁵⁶

⁵⁵Because many of DOD's appropriations were available for obligation for several fiscal years, DOD had many prior year accounts with balances still available for new obligations in fiscal year 2013. In part because these prior year unobligated balances were still available for new obligations, they were not exempt from sequestration. See 2 U.S.C. § 905(e). In this report when we refer to prior year unobligated balances, we are referring exclusively to prior year balances that were still available for new obligations, and not to budget authority that remained unobligated after its fixed period of availability had expired, and was no longer available for new obligations.

⁵⁶The shifting of funds between accounts is called a transfer. An agency may not transfer funds unless it has statutory authority to do so. Reprogramming is the shifting of funds from one program to another within an appropriation or fund account for purposes other than those contemplated at the time of appropriation. The authority to reprogram is implicit in an agency's responsibility to manage its funds; no statutory authority is necessary but the agency may be required to notify the congressional appropriations committees, the authorizing committees, or both of any reprogramming action.

The case study findings presented in this appendix provide illustrative examples of fiscal year 2013 sequestration effects and mitigation strategies across the department. Whenever possible, we corroborated testimonial evidence from interviews with DOD officials with data or other documentary evidence regarding the effects (including expected future effects) of sequestration on programs, projects, and activities within the case study areas. However, data were unavailable to support some of the anticipated future effects that officials described to us, such as the degree of deterioration of infrastructure from reduced sustainment funding. While the findings of the five case studies cannot be generalized to all DOD programs, projects, and activities, they reflect a wide range of perspectives across the department.

Case Study 1 - Operation and Maintenance Accounts: Service Components' Operational Tempo and Training

Overview

Figure 7: Description of Operational Tempo and Training Activities and Related Fiscal Year 2013 Budgetary Resources

The three military department secretaries have a statutory responsibility to organize, train, and equip units to meet operational requirements, subject to the authority, direction, and control of the Secretary of Defense. In order to do so, the military service components prepare and deploy trained and ready forces.

Each service component has a variety of budget subactivity groups within its operation and maintenance accounts that collectively fund a variety of activities within the operational tempo and training category. Specifically, the subactivity groups included fund items like:

- fuel for air and ground vehicles participating in training events;
- repair parts for some field level maintenance, which can include the repair or replacement of damaged or unserviceable parts, components, or assemblies;
- civilian and contractor support for operating training ranges; and
- deployments and capstone training exercises and events, like the Army's Combat Training Center rotations and Air Force joint and multinational exercises.



The service components' fiscal year 2013 enacted amount for the operational tempo and training category was about \$57.7 billion out of the service components' total operation and maintenance enacted amount of approximately \$187 billion.



A Stryker vehicle commander trains at the Army's National Training Center.



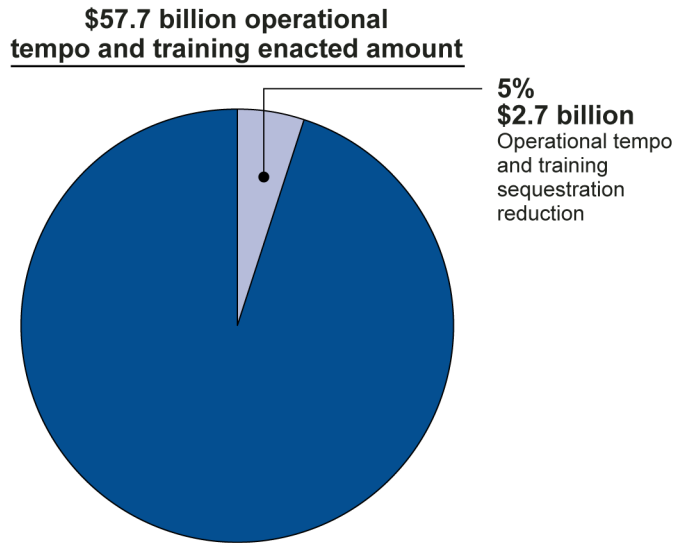
Air Force pilots participate in a multinational training exercise.

Sources: GAO analysis of Department of Defense (DOD) data and information (text); Defense Video and Imagery Distribution System (photos). | GAO-15-470

Service Components Reduced the Total Enacted Amount of Funding for the Operational Tempo and Training Category by Almost Five Percent, but the Amount and Percentage Varied by Service Component

In implementing sequestration, the service components reduced fiscal year 2013 funding for the operational tempo and training category by about \$2.7 billion, representing about 5 percent of the service components' enacted amount for the category according to our analysis of DOD's budget execution data (see fig. 8).

Figure 8: Service Components' Enacted Amount of Funding and Sequestration Reduction for the Operational Tempo and Training Category, Fiscal Year 2013

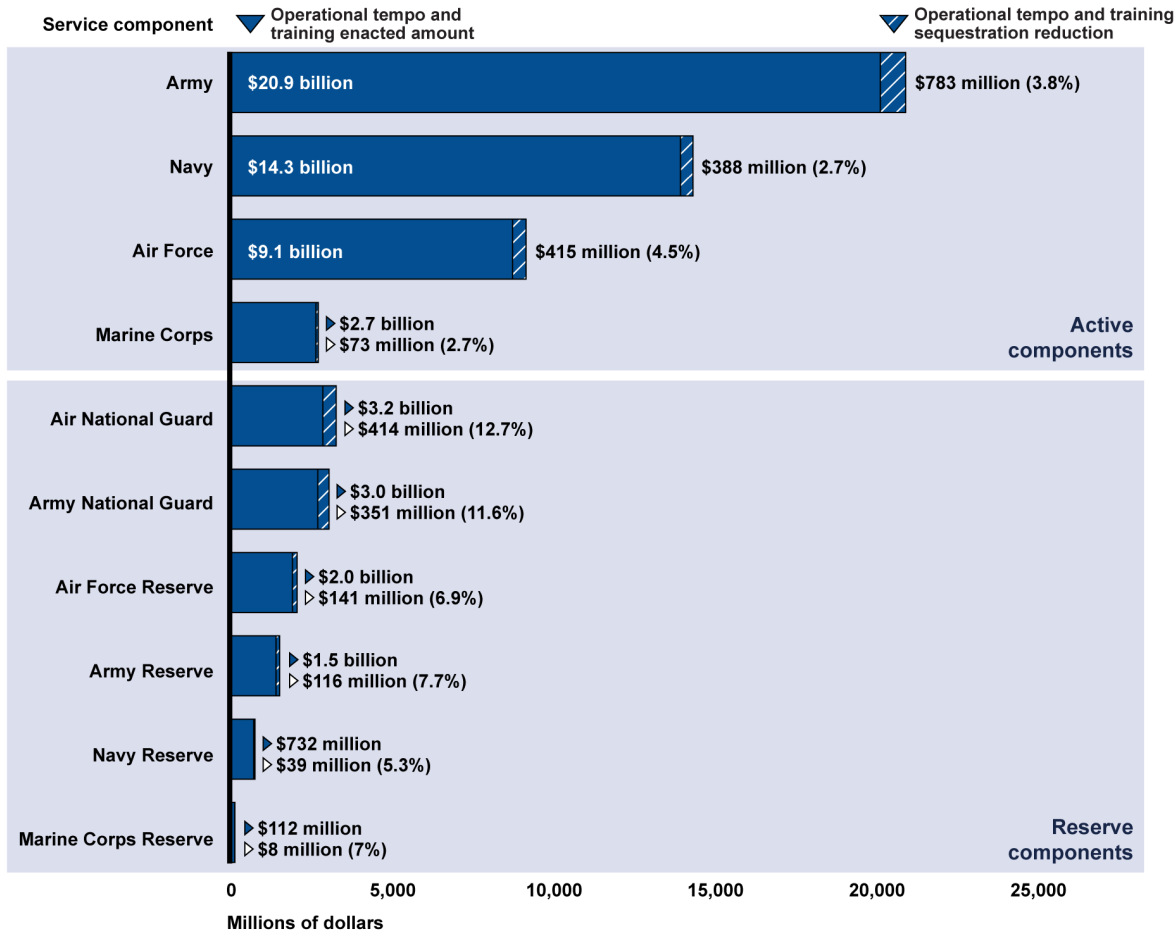


Source: GAO analysis of Department of Defense (DOD) data. | GAO-15-470

Note: Enacted amount includes fiscal year 2013 base and overseas contingency operations funding. We did not include any prior year unobligated balances in the enacted amount because operation and maintenance funding is generally available for obligation for one year only, and any unobligated balances within operation and maintenance accounts are relatively small.

The active and reserve components allocated varying amounts and percentages of sequestration reductions within the operational tempo and training category, as shown in figure 9.

Figure 9: Enacted Amount of Funding and Sequestration Reduction to the Operational Tempo and Training Category by Service Component, Fiscal Year 2013



Source: GAO analysis of Department of Defense (DOD) data. | GAO-15-470

Note: Enacted amounts include fiscal year 2013 base and overseas contingency operations funding. We did not include any prior year unobligated balances in the enacted amounts because operation and maintenance funding is generally available for obligation for one year only, and any unobligated balances within operation and maintenance accounts are relatively small.

The active components of the Army, Navy, and Air Force applied larger fiscal year 2013 sequestration reduction amounts—in dollar terms—to the operational tempo and training category than did these services’ reserve components, which reflects the larger size of the active components’ enacted amounts relative to those of the reserve components. The active components’ reduction amounts ranged from \$73 million for the Marine Corps to \$783 million for the Army. By comparison, reserve components’ reductions in the operational tempo and training category ranged from

\$8 million for the Marine Corps Reserve to \$414 million for the Air National Guard. However, on average, the active components' reduction to the category as a percentage of the enacted amount (about 3 percent) was smaller than that of the reserve components' reduction (about 9 percent).

Reduced Spending Resulted in Effects Related to Increased Costs and Spending, Delayed Time Frames and Cancelled Training, and the Decreased Availability of Forces and Equipment

Based on our review of DOD's budget execution data, service training documents and data, and interviews with training officials, we found that the service components took steps during the fiscal year 2013 sequestration to protect resources for certain priorities, such as deployed units or those preparing to deploy for ongoing operations, in response to DOD's memorandum.⁵⁷ As a result, officials from all four military services reported being able to fulfill combatant commanders' requests for forces in fiscal year 2013. To preserve funding for these priorities, officials from service component headquarters and commands reported making reductions to spending in lower priority areas, such as training and exercises for units not scheduled to deploy. Officials from some of the service components identified some effects resulting from sequestration reductions. However, the type of effects identified varied by component, with some components indicating that they did not experience significant negative effects. For example, Marine Corps Forces Command officials told us the command avoided cancelling deployments or major exercises and reported no readiness effects as a result of sequestration. As a result of actions taken to reduce spending for lower priority areas in fiscal year 2013, service component officials identified negative effects, which based on our analysis are related to increased costs in fiscal year 2013 or a subsequent fiscal year; cancelled or reduced training activities and delayed time frames to restore readiness; and a decreased availability of forces or equipment to support operations and training. Some of the effects identified were interrelated, while others were difficult to quantify.

Deployment Delays and Training Reductions Led to Increased Costs and Changes to Planned Spending

In some cases, reduced spending for certain activities in fiscal year 2013 led to increased costs for planned activities. For example, according to officials from the Navy's Fleet Forces Command, sequestration reductions contributed to their decision to delay the deployment of the USS *Harry S Truman* Carrier Strike Group by four months, which resulted

⁵⁷DOD, Deputy Secretary of Defense Memorandum, *Handling Budgetary Uncertainty in Fiscal Year 2013* (Jan. 10, 2013).

in an approximately \$7.6 million increase in the carrier strike group's overall operational cost. These officials told us that the additional cost was the result of maintaining the carrier strike group at a deployable readiness level during the four-month delay, which required additional spending on ship and air operations.⁵⁸

Reduced spending for training in fiscal year 2013 also led to increases in planned spending in a subsequent fiscal year. For example, documents from the Air Force's Air Combat Command show that the command ultimately reduced spending on its flying hour program by about \$315 million in fiscal year 2013, which led to a decrease in the combat readiness of some units.⁵⁹ To restore flying hours and increase combat readiness for units affected by sequestration, among other factors, Air Combat Command officials stated the Air Force has increased spending for the flying hour program more than previously planned for fiscal years 2014 through 2018.

Sequestration Reductions
Led to Cancelled and
Reduced Training and
Some Delayed Time Frames
to Restore Readiness

Actions the services took to reduce spending in fiscal year 2013 resulted in some cancelled activities and lost opportunities to perform training. For example, according to DOD and Army budget documents and Army Forces Command officials, sequestration reductions in fiscal year 2013 ultimately led the Army to cancel 7 of its 14 planned combat training center exercises, including exercises for 5 active duty and 2 National Guard brigade combat teams. Army headquarters officials told us the cancellation of these training exercises limited the number of individuals and units able to participate in the types of training events that would prepare them for a range of military operations. The cancellations also added to a backlog of leaders with limited tactical experience. For

⁵⁸In addition to increased operational costs, Fleet Forces Command officials identified other more difficult to quantify financial and non-financial effects to sailors as a result of the delay in the *Truman* deployment. For example, because the timing of the delay was two days before its scheduled deployment, Navy Fleet Forces Command officials told us the delay effected sailor's morale, and had financial repercussions for sailors who had to make adjustments to find interim housing or additional caretakers for their children on short notice.

⁵⁹According to Air Combat Command documents, the command initially reduced its flying hour program by about \$592 million, or 18 percent, following the March 1, 2013 sequestration order. In May 2013 Headquarters Air Force resumed flying operations for some units at an estimated cost of \$69 million by reducing funding and increasing risk in other areas of the budget. In addition, in July 2013 Headquarters Air Force reprogrammed about \$200 million, which allowed Air Combat Command to resume flying operations for all units that had ceased flying earlier in the fiscal year.

example, Army headquarters officials said that cancelling combat training center rotations in fiscal year 2013 further limited professional development opportunities for commanders that have had their combat training center rotations focused on mission-specific training since 2001, such as counter-insurgency skills. Further, Army headquarters officials explained that cancelled combat training center rotations may also have long-term consequences to units' training and leadership expertise for certain skills. For example, officials noted that officers and noncommissioned officers in senior command positions who have received limited training across the full range of operations may not have sufficient expertise and experience to teach these skills to the junior officers and noncommissioned officers they are expected to lead, adding to a gap in expertise for some service personnel.

In addition, according to Air Combat Command documents and officials, the Air Force stood down 17 of their 62 operational squadrons for 3 months in fiscal year 2013, and reduced flying hours for 10 other squadrons for a period of 1 to 3 months each. Air Force officials told us that the stand-down of the squadrons and reduced flying hours created several effects. For example, Air Combat Command officials said that pilots experienced deterioration in the proficiency of critical skills and combat readiness that needed to be restored once the squadrons resumed flying operations. Specifically, as of July 2013, an Air Combat Command document reported a 13 percent decrease in reported combat readiness due to reduced flying hours. In addition, pilots were unable to execute more advanced training because they had to redo previously completed training to regain lost proficiency. Air Combat Command officials also told us that sequestration reductions resulted in the cancellation of some training courses that may affect officer career progression and the availability of these skill sets. For example, Air Force documents show that a cancelled course for weapons instructors prevented more than 100 weapons officers from being available for assignment and will decrease the Air Force's ability to fill weapons instructor positions through at least fiscal year 2016.

Due to fiscal year 2013 sequestration reductions, the services also cancelled some joint exercises, which led to lost opportunities to perform training across services or combined training with other nations. For example, officials from the Navy's Pacific Fleet told us they cancelled their biennial *Northern Edge 13* joint training exercise. According to Pacific Fleet officials, this joint exercise is designed to include Navy, Marine Corps, and Air Force service participation and is one of two regularly scheduled joint exercises in the U.S. Pacific Command's area of

responsibility.⁶⁰ These officials noted that its cancellation resulted in a four-year gap in holding the event, limiting opportunities to conduct joint training within the command. Further, Air Combat Command officials told us that the Air Force cancelled or reduced participation in 32 of 48 large-scale planned exercises, ultimately effecting training for 283 units and 13 partner nations. Of those exercises cancelled, two were the Air Force's joint and multinational "Red Flag" exercises designed to emulate the full spectrum of operations.⁶¹ Air Combat Command and Air National Guard officials told us these lost training opportunities affected both active and reserve units' ability to conduct combined training and build relationships with partner nations.

The cancellation of exercises and reduced training opportunities also resulted in reported delays for meeting some of the services' goals to restore readiness for units affected by a high pace of combat operations. For example, according to DOD budget documents, the Army planned to begin refocusing the training for brigade combat teams undergoing combat training center rotations in fiscal year 2013 on skills necessary to perform full spectrum operations. However, Army headquarters officials stated that the cancellation of six training exercises, along with other reductions to training, delayed their goal of achieving readiness for full spectrum operations for brigade combat teams from fiscal year 2019 until at least 2020. Similarly, an Air Force headquarters official told us that it took squadrons that were stood down an average of 9 months to regain pilot proficiency and recover lost readiness. As a result of being stood down and the amount of time spent regaining proficiency, Air Combat Command officials reported that some pilots were only able to complete mission-specific training prior to deploying and were unable to train for other missions across the full spectrum of operations.

⁶⁰Each of DOD's six geographic combatant commands has defined areas of operation and a distinct regional military focus. The six geographic combatant commands are U.S. Africa Command, U.S. Central Command, U.S. European Command, U.S. Northern Command, U.S. Pacific Command, and U.S. Southern Command.

⁶¹According to DOD budget documents, preparing for full spectrum operations includes training across the broad range of missions and capabilities required by the defense strategy. These missions and capabilities include conducting counter terrorism and irregular warfare, responding to anti-access/area denial challenges, countering weapons of mass destruction, and conducting humanitarian and disaster relief, among others.

Reduced Training and Resources Limited the Availability of Forces and Equipment

Some actions the service components took to reduce spending in fiscal year 2013 reportedly decreased the availability of forces and equipment to support emergent needs or for other purposes. For example, Army headquarters and Forces Command officials told us they reduced training funds for their non-deploying units, which required these units to focus resources on individual- and squad-level training and resulted in fewer units trained and available for deployment than planned. According to testimony by the Chief of Staff of the Army, 85 percent of brigade combat teams were not ready for combat in fiscal year 2013, if required.⁶² Army Forces Command officials told us that their training plans are designed so that half of active component brigade combat teams are ready to deploy if required. However, these officials told us that three brigade combat teams with the required training were available to meet surge requirements at the end of fiscal year 2013.

Air Force officials also reported effects on the number of units available to respond to emergent requirements and the availability of equipment for training. For example, Air Combat Command officials told us that from April to July 2013 when the Air Force stood down 17 operational squadrons and reduced flying hours for 10 more squadrons, it had 1 squadron with the required combat training available to deploy for emergent requirements. Furthermore, according to internal summary reports by two Air Force commands, these commands chose to limit their supply purchases for squadrons to reduce spending, including purchases of spare parts for equipment and weapon system repairs, to those considered essential for fiscal 2013, and to defer any other purchases to future years. Air Force maintenance officials told us that the reduction in the stockpile of repair parts generally led to increased repair times in fiscal year 2013, although the specific duration of those delays was unknown. The officials also noted that the resulting shortfalls of available spare parts sometimes delayed maintenance completion on equipment and weapon systems, thereby reducing the availability of those items to units for training and operations.

In addition, due to reduced resources in fiscal year 2013, the Navy postponed or cancelled some planned deployments, which resulted in a

⁶²General Raymond T. Odierno, Chief of Staff, United States Army, *Planning for Sequestration in Fiscal Year 2014 and Perspectives of the Military Services on the Strategic Choices and Management Review*, testimony before the House Armed Services Committee, 113th Cong., 1st sess. (Sept. 18, 2013).

10 percent decrease in its deployed forces worldwide. For example, as noted above, the Navy delayed the deployment of the USS *Harry S Truman* carrier strike group, which according to a Navy headquarters official reduced the Navy's presence in the U.S. Central Command's area of responsibility to one carrier strike group. This official told us that the delay of the *Truman* also affected the deployment of a subsequent carrier strike group, which decreased the Navy's ability to respond to contingency operations.

Furthermore, due to spending reductions in fiscal year 2013, officials from the Navy's Pacific Fleet told us they reduced funding for their ship fuel program, which led to cancelled deployments and reductions to training.⁶³ According to Pacific Fleet data on fourth quarter fuel reductions, Fourth Fleet, which is assigned to support U.S. Southern Command, received fuel for about 55 percent of its scheduled training and operational requirements. As a result of fuel and other spending reductions, officials from Fleet Forces Command and Pacific Fleet told us the Navy cancelled a number of deployments including:

- The USNS *Comfort* and its supporting medical units, the USS *Kauffman*, and a maritime civil affairs team;
- The USS *Rentz* and USS *Jefferson City*, which would have supported counter-narcotics operations; and
- The USS *Pearl Harbor*, which would have supported partnership activities in the region.

The Services Used Available Funding Flexibilities to Mitigate Some of the Effects of Sequestration Reductions

Based on our review of DOD data and interviews with service component officials, we found that the services relied on internal prioritization processes to manage fiscal year 2013 sequestration reductions by applying reductions to lower-priority areas and also used existing funding flexibilities, such as reprogramming and transfer authorities to mitigate the effects of sequestration. By using funds transferred or reprogrammed into the operational tempo and training category, some service officials reported being able to fund some unplanned requirements or reverse some actions initially taken in response to sequestration reductions. For example, according to DOD reprogramming documents:

⁶³The ship fuel program provides the Navy numbered fleets with fuel to operate annual approved ship deployment and training schedules.

- As discussed earlier, in July 2013 DOD transferred about \$200 million into the Air Force's operation and maintenance account to mitigate shortfalls in its flying hour program. According to Air Combat Command officials, this action allowed the Air Force to resume some flying operations for squadrons that had been stood down. Our analysis of fiscal year 2013 Air Force flying hour data shows that, after declining from April through June, active duty combat units began increasing their execution of flying hours in July and August.
- DOD transferred about \$135 million to the Navy's operation and maintenance account to restore some flying hours and support unbudgeted missions, among other things. According to an official from the Navy's financial management office, this funding allowed the Navy to restore tactical flying hours and fund unbudgeted ship operations in the Middle East.

The use of transfers and reprogrammings gave the services some flexibility to manage reductions, but did not allow them to restore some actions taken in response to the fiscal year 2013 sequestration. Specifically, Army and Air Force officials told us that because some of the transferred or reprogrammed funds did not become available until later in the year, some cancelled exercises and training classes could not be restored. For example, Army Forces Command officials said that because of capacity limitations at combat training centers, they would have been unable to reschedule cancelled exercises even if additional funds had become available later in the year. Additionally, Air Combat Command officials described to us the difficulty of spending reprogrammed funds because of the interrelationship of funding sources and activities. For example, these officials told us that when transferred or reprogrammed funds for flight hours became available, the Air Force had to first restore training for aircrew and maintenance personnel that had lost critical skills before pilots were able to resume flying hours.

Beginning in fiscal year 2013, some service officials reported taking actions to help mitigate existing readiness shortfalls that were exacerbated by sequestration. For example, Army Forces Command officials told us that in response to concerns about the service's ability to surge units during sequestration and only having three brigade combat teams available to meet surge requirements at the end of fiscal year 2013, the Army created the "Army Contingency Force." According to DOD and Army budget documents, the Army Contingency Force will include a mix of fully trained brigades capable of providing an initial response and surge capability to respond to emerging requirements. Furthermore, as part of its ongoing efforts to address concerns about the pace of

operations, length of deployments, and overall readiness, the Navy recently revised its operational schedule—referred to as the Optimized Fleet Response Plan—for its carrier strike groups. While this plan is not in direct response to sequestration, according to Navy documents and testimony from the Chief of Naval Operations, it is intended to help mitigate readiness and deployment challenges that were exacerbated by sequestration by providing more stable operational schedules to ensure that ships are able to adequately address their training and maintenance requirements.⁶⁴

⁶⁴Admiral Jonathan Greenert, Chief of Naval Operations, United States Navy, *FY 2015 Department of the Navy Posture*, testimony before the House Armed Services Committee (Mar. 12, 2014).

Case Study 2 - Operation and Maintenance Accounts: Services' Maintenance and Weapon Systems Support

Overview

Figure 10: Description of Maintenance and Weapon Systems Support Activities and Related Fiscal Year 2013 Budgetary Resources

Maintenance and weapon systems support activities play a key role in ensuring the readiness and sustainability of the military services. DOD's maintenance activities support a wide range of weapon systems including about 280 ships, 14,000 aircraft, 800 strategic missiles, and 350,000 ground combat and tactical vehicles. Nearly 657,000 personnel are employed in DOD maintenance activities. Each service component has specific budget subactivity groups within its operation and maintenance accounts that collectively fund a variety of activities within the maintenance and weapon systems support category such as:

- depot-level maintenance, which consists of materiel maintenance or repair requiring the overhaul, upgrading, or rebuilding of parts, assemblies, or subassemblies, and the testing and reclamation of equipment as necessary;^a
- field-level maintenance, which is comprised of two sub-levels including (1) intermediate maintenance that generally covers calibration, repair, or replacement of damaged or unserviceable parts, components, or assemblies; the emergency manufacture of non-available parts; and technical assistance to users; and (2) organizational maintenance that generally covers inspecting, servicing, lubricating, adjusting, or replacing parts, minor assemblies, and subassemblies;^b and
- weapon systems support, the definition of which varies among services.^c For example, Navy officials stated that weapon systems support is comprised of two major elements: integrated logistics support (e.g., supply support, equipment, and training support) and systems engineering support (e.g., failure review boards and obsolescence management).



The service components' fiscal year 2013 enacted amount for the maintenance and weapon systems support category was nearly \$30.1 billion out of the service components' combined total operation and maintenance enacted amount of about \$187 billion.



The aircraft carrier USS *Dwight D. Eisenhower* sits in dry dock during a 14-month maintenance period at Norfolk Naval Shipyard.



An Army civilian employee from Anniston Army Depot performs a technical inspection of a machine gun.

Sources: GAO analysis of Department of Defense (DOD) data and information (text); Defense Video and Imagery Distribution System (photos). | GAO-15-470

Notes:

^aAmong other things, depot maintenance requires extensive industrial facilities, specialized tools and equipment, or uniquely experienced and trained personnel that are not available in lower-echelon-level maintenance activities. Depot maintenance is a function and, as such, is independent of any location or funding source and may be performed in the public or private sectors. Generally, depot maintenance or repair is performed at the 17 depots (maintenance facilities) managed by the service components.

^bSome additional field-level maintenance activities are funded by subactivity groups included in the operational tempo and training category.

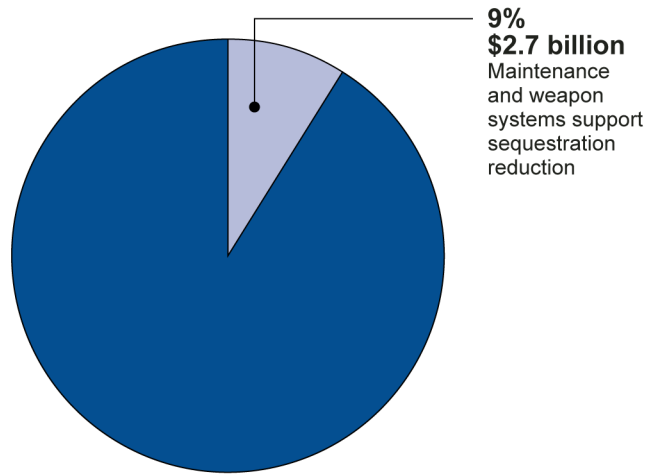
^cThe Air Force uses the term weapon systems sustainment to include both weapon systems support and depot maintenance. Weapon systems support includes the following four components: (1) contract logistics support (contract support for a program, system, training system, equipment, or item used to provide all or part of the sustainment elements in direct support of an approved sustainment strategy); (2) depot purchased equipment (major overhaul and/or rebuild of parts, assemblies, subassemblies, and end items. Includes manufacture of parts, technical assistance, software maintenance, and storage); (3) sustaining engineering (engineering efforts required to review, assess, define, and resolve technical or supportability deficiencies revealed in fielded systems, products, and materials); and (4) technical orders (provide user friendly, technically accurate, and up-to-date technical data at the point of use that is acquired, sustained, distributed, and available for all users). For the Army and the Marine Corps, weapon systems support activities are included within the depot maintenance subactivity groups.

Service Components Reduced the Total Enacted Amount of Funding for the Maintenance and Weapon Systems Support Category by About 9 Percent, but the Amount and Percentage Varied by Component

In implementing sequestration, the service components reduced fiscal year 2013 funding for the maintenance and weapon systems support category by about \$2.7 billion, representing about 9 percent of the service components' enacted amounts for the category according to our analysis of DOD's budget execution data (see fig. 11).

Figure 11: Service Components' Enacted Amount of Funding and Sequestration Reduction to the Maintenance and Weapon Systems Support Category, Fiscal Year 2013

\$30.1 billion maintenance and weapon systems support enacted amount

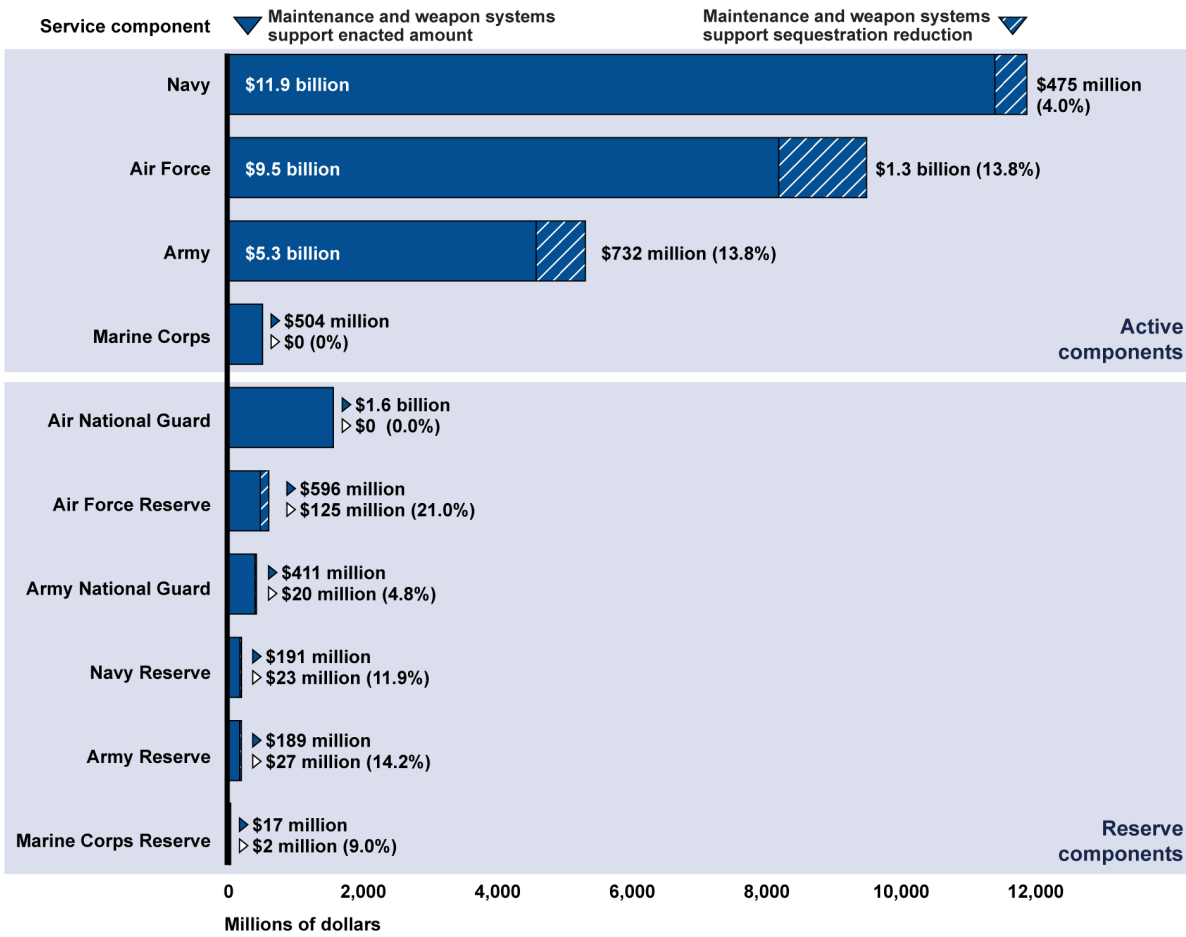


Source: GAO analysis of Department of Defense (DOD) data. | GAO-15-470

Notes: Enacted amount includes fiscal year 2013 base and overseas contingency operations funding. We did not include any prior year unobligated balances in the enacted amount because operation and maintenance funding is generally available for obligation for one year only, and any unobligated balances within operation and maintenance accounts are relatively small.

The active and reserve components allocated varying amounts and percentages of the fiscal year 2013 sequestration reductions within their maintenance and weapon systems support category, as shown in figure 12.

Figure 12: Enacted Amount of Funding and Sequestration Reduction to the Maintenance and Weapon Systems Support Category by Service Component, Fiscal Year 2013



Source: GAO analysis of Department of Defense (DOD) data. | GAO-15-470

Notes: Enacted amounts include fiscal year 2013 base and overseas contingency operations funding. We did not include any prior year unobligated balances in the enacted amounts because operation and maintenance funding is generally available for obligation for one year only, and any unobligated balances within operation and maintenance accounts are relatively small.

The active Army, Navy, and Air Force components generally applied larger sequestration reduction amounts—in terms of dollars—to the maintenance and weapon systems support category than did the reserve components, which reflects the larger size of the active components’ enacted amounts relative to those of the reserve components. The active component reduction amounts ranged from \$0 for the Marine Corps to about \$1.3 billion for the Air Force. Reserve component reduction amounts ranged from \$0 for the Air National Guard to about \$125 million

for the Air Force Reserve. However, as also shown in figure 12, the reductions in percentage terms varied substantially among both the active and reserve components.

Reductions Resulted in Effects Related to Costs and Spending, Delayed Time Frames, and Reduced Equipment Availability

Based on our review of DOD's budget execution data, internal maintenance records, service guidance, and interviews with maintenance officials, we found that the service components took steps during the fiscal year 2013 sequestration to preserve funding for maintenance activities most directly associated with equipment readiness for those units deploying or next-to-deploy in support of ongoing operations, and reduced spending on equipment maintenance for later-deploying units, in response to a DOD memorandum.⁶⁵ As a result of their efforts to reduce spending on lower-priority maintenance activities for units that were not deploying in the near term, officials from service component headquarters and maintenance commands identified some effects related to increased costs and deferred spending for maintenance delayed to future fiscal years; delayed time frames associated with completion of ongoing maintenance during the year; and the reduced availability of equipment, supplies, and personnel for conducting maintenance work and training, based on our analysis. These effects varied by component. For example, the active Army, Navy, and Air Force components reported effects related to each of those three areas. However, officials from the Marine Corps' active and reserve components told us there was little to no effect on equipment maintenance because they utilized supplemental overseas contingency operations funding to offset sequestration reductions. The active Marine Corps, in particular, received a large amount of overseas contingency operations funding for depot maintenance in fiscal year 2013 relative to the amount requested.

Equipment Maintenance Deferrals Contributed to Deferred Spending and Possible Cost Increases in Future Years

Some actions the service components took to reduce their expenses in fiscal year 2013, such as deferring equipment maintenance, contributed to deferred spending and the potential for increased costs in future fiscal years. Service maintenance officials told us that from year to year, each service generally defers some portion of its planned equipment maintenance for a variety of reasons, such as capacity limitations at maintenance facilities, operational considerations that postpone the

⁶⁵DOD, Deputy Secretary of Defense Memorandum, *Handling Budgetary Uncertainty in Fiscal Year 2013* (Jan. 10, 2013).

availability of equipment for maintenance, and requirements that exceed available funding. According to service officials, the total amount of deferred maintenance in any given year cannot be specifically attributed to one factor over another, including sequestration reductions in fiscal year 2013. However, officials from the Army's and Navy's maintenance commands told us that sequestration reductions contributed to the following examples of deferred maintenance and spending in fiscal year 2013:

- Maintenance officials from Army headquarters reported deferring about \$630 million of costs from fiscal year 2013 to fiscal year 2015 to perform maintenance on equipment returning from overseas contingency operations. According to these officials, this amount included field-level maintenance for 28 aircraft and maintenance funding for about 13,000 pieces of equipment, or about 9 percent of the approximately 142,000 equipment items the Army planned to reset in fiscal year 2013.
- Naval Sea Systems Command officials told us they deferred from fiscal year 2013 to fiscal year 2014 at least 75,000 days of civilian labor and their associated expense for a variety of major projects, such as ship and submarine engineering overhauls.⁶⁶ Based on our review of Navy budget documents, this amount represented about 2 percent of the 4.6 million days of labor planned for maintenance in fiscal year 2013, or the approximate equivalent to shipyard maintenance on two Los Angeles-class submarines for 6 months each. U.S. Pacific Fleet officials also told us that maintenance deferrals into fiscal year 2014 displaced other maintenance planned for that year on other surface ships or submarines, which in turn affected those vessels' availability in the fleet for training and operations. However, officials could not quantify the precise backlog of ship and submarine maintenance in 2014 or the affect on training or deployment schedules due to sequestration as opposed to other factors.

In connection with the reported instances of deferred spending and maintenance, Army, Navy, and Air Force officials expect that deferred maintenance will lead to future increased costs that could not be

⁶⁶In contrast to the Army, which measures deferred maintenance in terms of its dollar value, the Navy generally measures its deferred ship maintenance in terms of the related days of civilian labor.

quantified at the time of our review. For example, officials from Headquarters Air Force told us that, within acceptable risk levels, aircraft continued to fly past their scheduled maintenance time frames in fiscal year 2013. These officials further explained that they anticipate the future maintenance and repair will be more expensive because of the additional wear and tear on the aircraft. Similarly, the Chief of Naval Operations testified in February 2013 that the cancellation of maintenance for ships and aircraft will reduce their service lives and increase the likelihood of breakdowns, leading to a higher cost for those additional future repairs.⁶⁷ In September 2012, we found that the Navy has recognized that deferring maintenance can affect readiness and increase the costs of later repairs.⁶⁸ For example, during that prior review, officials told us that Navy studies have found that deferring maintenance on ballast tanks to the next major maintenance period will increase costs by approximately 2.6 times and a systematic deferral of maintenance may make it cost prohibitive to keep a ship in service.

Service Actions Delayed
Time Frames for Completing
Ongoing Maintenance and
Affected Work Scheduled
for Future Years

Some actions the service components took to reduce their expenses in fiscal year 2013, such as furloughing civilian employees and limiting purchases of spare parts and other supplies, reportedly delayed the completion of ongoing maintenance and, in some instances, affected time frames for maintenance work scheduled for future years. For example, Naval Air Systems Command officials told us that personnel shortfalls resulting from the 6-day civilian furlough and hiring freeze, among other factors, contributed to a delay in the completion of planned maintenance on 43 aircraft and 289 engines in fiscal year 2013. These officials told us that technicians completed all of the delayed work on those items in 2014, but that backlog in turn delayed maintenance on other aircraft and engines that was previously scheduled for fiscal years 2014 and 2015. Further, Naval Air Systems Command officials stated that recovery from the work backlog has been slowed by delays in hiring civilian personnel to

⁶⁷ Admiral Jonathan Greenert, Chief of Naval Operations, *The Impacts of a Continuing Resolution and Sequestration on Defense*, 113th Cong. 1st sess., Feb. 13, 2013.

⁶⁸ GAO, *Military Readiness: Navy Needs to Assess Risks to Its Strategy to Improve Ship Readiness*, [GAO-12-887](#) (Washington, D.C.: Sept. 21, 2012).

restore the total workforce to pre-sequestration levels, which these officials expected to be complete by June 2015.⁶⁹

In addition to delays in repairing naval aircraft, U.S. Pacific Fleet officials told us that some of their ships were affected by maintenance delays in the shipyards. For example, according to these officials, reduced spending and civilian personnel shortfalls contributed to a two-month delay in the completion of maintenance on the USS *John C. Stennis* aircraft carrier. The officials noted that the delay to the *Stennis*, along with other factors, led to a 2-month delay in the start of maintenance work on the USS *Nimitz* aircraft carrier, which began in January 2015. However, U.S. Pacific Fleet officials told us that the delay in the start of maintenance on the *Nimitz* did not affect its planned deployment schedule.

Spending reductions reportedly also contributed to delays in Air Force maintenance. Specifically, as discussed earlier, officials from two Air Force commands told us that they reduced spending by limiting their purchases of spare parts for equipment and weapon system repairs to those considered essential for fiscal year 2013, and deferred any other purchases to future years.⁷⁰ Air Force officials said that the reduction in the stockpile of repair parts generally led to increased repair times in fiscal year 2013, although those time frames were not specifically quantified.

Spending Reductions
Contributed to Decreased
Availability of Equipment for
Training and Supplies and
Personnel for Conducting
Maintenance

Reductions in maintenance funding that the service components implemented in response to the fiscal year 2013 sequestration contributed to some reported instances of decreased availability of equipment for conducting operations and training and shortfalls in supplies and personnel for performing maintenance. For example, officials from Naval Air Systems Command stated that the command reduced funding to perform depot maintenance work and recertification

⁶⁹The Navy's reported shortfalls in civilian personnel are attributable in part, but not entirely, to sequestration reductions in fiscal year 2013, according to officials. Officials told us that additional contributing factors to personnel shortfalls include the release of temporary and term employees and a hiring freeze in fiscal year 2013, which were actions that the services implemented in an effort to achieve long-term budget savings.

⁷⁰Within the Air Force, supply purchases for maintenance are funded by a combination of subactivity groups included in the operational tempo and training and maintenance and weapon systems support categories.

procedures on over 50 percent of weapons and weapon components planned at the beginning of fiscal year 2013—including critical missile systems like the Standoff Land Attack Missile-Expanded Response, Harpoon, Sidewinder, and Advanced Medium-Range Air-to-Air missiles. Further, these officials told us that the deferred maintenance on those approximately 800 missiles and components led to shortfalls in the availability of weapons for the fleet relative to ship inventory requirements for operations and training. Consequently, Naval Air Systems Command officials told us that the reduced availability of ready and certified weapons and weapon components necessitated transfers of weapons across ships to conduct planned training and operations with the required quantity of weapons. These officials noted that the Navy has budgeted for the completion of this deferred maintenance on weapons and components in fiscal years 2016 through 2020.

In addition to the reduced availability of some weapons and equipment for training and operations, reduced maintenance spending led to reported instances of shortfalls in personnel needed to perform planned maintenance. Officials from the Air Force's and Navy's maintenance commands stated that a civilian hiring freeze and the 6-day civilian furlough, due in part to sequestration, affected the availability of personnel needed to perform maintenance work and related inspections. For example, Air Force Materiel Command officials reported that the combined effect of these personnel shortfalls led to depot work backlogs for aircraft and engine maintenance. Specifically, in an internal command report on the effects of the civilian furlough, Air Force Materiel Command estimated that in the fourth quarter of fiscal year 2013, it lost about 1 million hours of production, or 25 percent of its planned capacity. The lost production hours caused an estimated 33 percent reduction in depot efficiency and decreased the availability of aircraft to squadrons, including two aircraft during the fourth quarter that were delayed in being returned to their squadrons due to the restrictions in personnel overtime. Similarly, Naval Sea Systems Command officials explained that the hiring freeze exacerbated a pre-existing problem at Navy shipyards in terms of the planned maintenance workload exceeding the number and types of skilled civilian personnel (e.g., engineers) available in the workforce to perform the maintenance. U.S. Pacific Fleet officials also stated that the civilian furlough affected the availability of diesel engine inspectors and delayed by about 1 month the completion of maintenance on the USS *Comstock* amphibious dock landing ship, from August to September 2013. According to these officials, however, the delay in maintenance did not affect the ship's planned deployment schedule in 2014.

The Services Focused Reductions on Equipment Maintenance Activities for Later-Deploying Units and Used Available Flexibilities to Mitigate the Effects of Sequestration

Officials with the military services told us that, in response to a DOD memorandum, they generally focused fiscal year 2013 spending reductions on repairs for equipment recently returned from deployment.⁷¹ For example, our analysis of fiscal year 2013 budget execution data showed that, as a result of sequestration and transfer or reprogramming actions, the Army applied substantial reductions to its equipment reset program, which restores equipment returning from overseas contingency operations for use by later-deploying units. Army budget officials told us they distributed the transferred and reprogrammed reset program funds to other emergent or higher priority activities or programs. Our analysis showed that together, the reprogramming and sequestration reductions decreased the reset program by about \$1.7 billion relative to the fiscal year 2013 enacted amount of about \$3.7 billion for the program. In contrast, the Army reduced funding for the base budget portion of its maintenance and weapon systems support category—which funds depot maintenance on equipment for deploying units—by only about 1 percent relative to the base enacted amount for fiscal year 2013 of \$1.6 billion.

The services also told us the use of existing funding flexibilities helped mitigate some negative effects from fiscal year 2013 sequestration-related spending reductions to maintenance and weapon systems support programs. For example, Navy officials told us that they applied funds transferred or reprogrammed from other accounts or activities to the maintenance and weapon systems support category to perform maintenance projects on eight ships that were originally targeted for deferrals in the beginning of fiscal year 2013. In addition, Naval Air Systems Command officials told us that the Navy transferred or reprogrammed about \$4.9 million from other sources to fund urgent aircraft maintenance for the Navy Reserve—work that was expected to be deferred due to initial sequestration reductions in fiscal year 2013 funding.

Our review of service documentation and interviews with officials showed that the services took a number of other steps to mitigate the effect of fiscal year 2013 sequestration reductions on their maintenance and weapon systems support activities. For example, officials from Naval Sea Systems Command told us they frequently leveraged a pre-existing process, which they referred to as “rebaselining,” in fiscal year 2013 to

⁷¹DOD, Deputy Secretary of Defense Memorandum, *Handling Budgetary Uncertainty in Fiscal Year 2013* (Jan. 10, 2013).

better align the shipyards' workforce and capacity with the top priorities for maintenance within their workload. "Rebaselining" is a process of changing the cost, schedule, or performance associated with maintenance workloads. These officials stated that they utilized the rebaselining process more often in fiscal year 2013 than in prior years as a way to mitigate some effects of sequestration and fiscal uncertainty on the decreased availability of certain maintenance personnel due to hiring freezes and restrictions on overtime work. Additionally, these Naval Sea Systems Command officials reported that they petitioned for and received an exemption for shipyard workers from the civilian furlough, which protected a substantial portion of the shipyard workforce from the disruption of furlough days. Officials believe this furlough exemption also enabled them to maintain a substantial level of shipyard productivity.

To reduce the effect of sequestration reductions, the Army temporarily reduced the standard at which non-deployed units were required to maintain their equipment, including vehicles, in fiscal year 2013, while still ensuring those items were safe to operate.⁷² The change in standard enabled unit commanders to reduce their expenses by delaying the purchase of repair parts and maintenance costs. According to Army maintenance officials, in fiscal year 2013, the Army also created the Army Maintenance Sequestration Working Group to assess depot workload requirements, reprioritize available funding, and make recommendations for reprogramming actions to meet Army equipment maintenance requirements within the budgetary constraints imposed by sequestration. However, Army officials told us that after fiscal year 2013, they no longer needed this working group and returned to managing the prioritization of budgetary resources for maintenance resources through preexisting processes.

⁷²Department of the Army Memorandum, *Waiver Guidance Based on Fiscal Uncertainty* (Feb. 13, 2013). This memorandum authorizes commands to begin maintaining systems at "Fully Mission Capable Plus Safety" standard, rather than the prior, more stringent equipment standard, referred to as "10/20." The Army rescinded this memorandum on April 14, 2014, and commands were thereafter required to return to the 10/20 standard.

Case Study 3 - Operation and Maintenance Accounts: Service Components' Base Operating Support

Overview

Figure 13: Description of Base Operating Support Activities and Related Fiscal Year 2013 Budgetary Resources

DOD manages a global real property portfolio of more than 555,000 facilities located on more than 5,000 sites worldwide with a replacement value close to \$850 billion. These infrastructure and related operating support services are critical to building and maintaining military readiness. To that end, each service component has specific budget subactivity groups within its operation and maintenance accounts that fund the following types of functions within the base operating support category:

- facilities sustainment, restoration, modernization, and demolition; and
- operating support, such as airfield and port operations; facilities management; warrior and family support programs; safety and security services; environmental programs; information technology; logistics support; and other programs.



The service components' fiscal year 2013 combined enacted amount for the base operating support category was nearly \$34.2 billion out of the service components' combined total operation and maintenance enacted amount of about \$187 billion.



A servicemember marks a damaged area on an airfield flight line at Selfridge Air National Guard Base, Michigan.



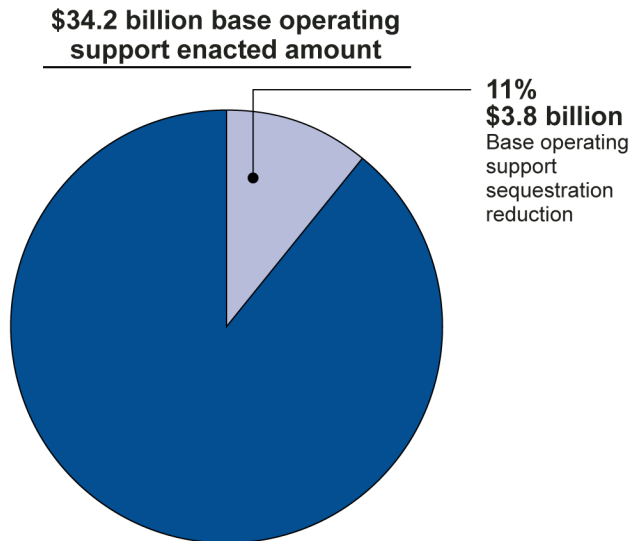
Emergency services personnel check an identification card at an entry control point at Fort Bliss, Texas.

Sources: GAO analysis of Department of Defense (DOD) data and information (text); Defense Video and Imagery Distribution System (photos). | GAO-15-470

Service Components Reduced the Total Enacted Amount of Funding for the Base Operating Support Category by About 11 Percent, but the Amount and Percentage Varied by Service Component

In implementing the fiscal year 2013 sequestration, the service components reduced fiscal year 2013 funding for the base operating support category by about \$3.8 billion, representing about 11 percent of the service components' total enacted amount for the category according to our analysis of DOD's budget execution data (see fig. 14).

Figure 14: Service Components' Enacted Amount of Funding and Sequestration Reduction to the Base Operating Support Category, Fiscal Year 2013

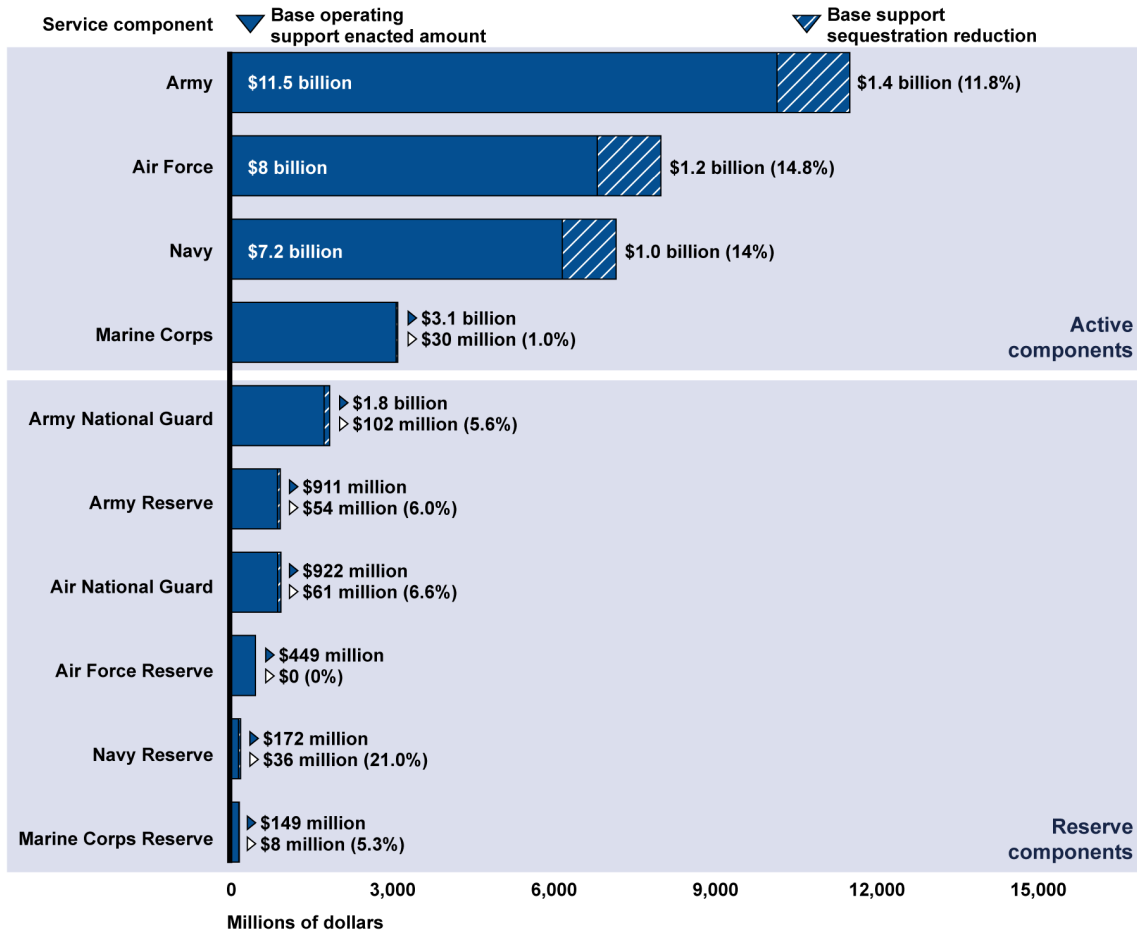


Source: GAO analysis of Department of Defense (DOD) data. | GAO-15-470

Notes: Enacted amount includes fiscal year 2013 base and overseas contingency operations funding. We did not include any prior year unobligated balances in the enacted amount because operation and maintenance funding is generally available for obligation for one year only, and any unobligated balances within operation and maintenance accounts are relatively small.

The active and reserve components allocated varying amounts and percentages of the fiscal year 2013 sequestration reductions within their respective base operating support categories, as shown in figure 15.

Figure 15: Enacted Amount of Funding and Sequestration Reduction to the Base Operating Support Category by Service Component, Fiscal Year 2013



Source: GAO analysis of Department of Defense (DOD) data. | GAO-15-470

Notes: Enacted amounts include fiscal year 2013 base and overseas contingency operations funding. We did not include any prior year unobligated balances in the enacted amounts because operation and maintenance funding is generally available for obligation for one year only, and any unobligated balances within operation and maintenance accounts are relatively small.

The active components of the Army, Navy, and Air Force generally applied larger sequestration reduction amounts—in dollar terms—within the base operating support category than did the reserve components, which reflects the larger size of the active components’ enacted amounts for base operating support relative to those of the reserve components. The active components’ reduction amounts for base operating support ranged from \$30 million for the Marine Corps to \$1.4 billion for the active

Army. The reserve components' reduction amounts to base operating support ranged from \$0 for the Air Force Reserve to \$102 million for the Army National Guard. As also shown in figure 15 above, the active components' reduction to the category as a percentage of the enacted amount ranged from about 1 percent to nearly 15 percent and the reserve components' reduction ranged from 0 percent to about 21 percent.

Reductions Resulted in Effects Related to Deferred Spending and Costs, Delayed Time Frames, and Reduced Equipment and Personnel Availability

Based on our review of DOD's budget execution data, internal briefing documents and reports, service guidance, and interviews with installation management officials, we found that the service components took steps to preserve their operating support activities over infrastructure-related functions within the base operating support category while implementing sequestration in fiscal year 2013. In particular, service installation management officials told us that they protected funding for certain operating support functions that they considered essential, such as facility leases, utilities, and civilian salaries. These officials also told us that, in response to a DOD memorandum, they prioritized base operating support expenses that were related to family programs and warfighter support.⁷³ For example, to ensure child development centers—a type of family program—had enough care providers to maintain accreditation, DOD exempted personnel working at these centers from the 6-day civilian furlough.⁷⁴

Officials with most of the active and reserve service components identified some effects resulting from sequestration reductions, but some installation management officials we interviewed told us that they were not aware of significant negative effects within their command or component. For example, installation management officials we interviewed from four of eight Air Force active component commands reported to us that they were able to accomplish their missions in fiscal year 2013 without any critical disruptions to the delivery of base operating support services. Also, budget and installation management officials from the Marine Corps and Marine Corps Reserve told us that there were no significant effects to base operating support due to sequestration. Other active and reserve components reported to us that they reduced funding

⁷³DOD, Deputy Secretary of Defense Memorandum, *Handling Budgetary Uncertainty in Fiscal Year 2013* (Jan. 10, 2013).

⁷⁴Secretary of Defense Memorandum, *Furloughs* (May 14, 2013).

Deferral of Base Operating Support Contracts and Infrastructure Projects, as well as Compressed Time Frames for Contract Awards, Led to Deferred Spending and Possible Cost Increases in Future Years

for their lower priorities, such as infrastructure projects they considered non-essential (e.g., repairs or other projects not related to the protection of health or safety). As a result of their efforts to reduce spending on lower-priority activities within the base operating support category in fiscal year 2013, active and reserve component officials identified certain negative effects that, based on our analysis, were generally related to deferred spending to a subsequent fiscal year, delayed time frames for completing infrastructure projects and repairs, and the reduced availability of personnel, equipment, and facilities for performing some emergency response duties or training and operations.

Officials we interviewed from 7 of the 10 service components told us they deferred spending on some base operating support contracts, infrastructure projects, or both as a result of fiscal year 2013 sequestration reductions. According to these officials, the deferred spending shifted the planned costs for those activities and projects to future fiscal years. Six of eight active component Air Force commands that we interviewed reported that they cancelled or changed the terms of some base service contracts to reduce their fiscal year 2013 expenses for services such as dining, custodial services, or grounds keeping, and deferred some of those contract costs into fiscal year 2014. For example, according to an internal summary report by Air Force Materiel Command, the command adjusted some service contracts for its bases, including one for a dining facility on Robins Air Force Base that deferred \$1.9 million of planned costs in fiscal year 2013 to fiscal year 2014.

In some instances, the service components' deferrals of infrastructure spending in fiscal year 2013 may lead to increased costs that cannot be determined at this time. For example, according to installation management officials from the Army and internal reports, the Army deferred a substantial amount of infrastructure-related spending from fiscal year 2013 to future years. Specifically, our analysis of budget justification and execution data showed that the Army reduced its fiscal year 2013 base funding for facilities sustainment projects—including preventive maintenance and repairs—by nearly \$1 billion. This amount represented about 40 percent of its base budget request for fiscal year 2013 sustainment projects. Officials from the Army's installation management command told us that the negative effects of reduced sustainment funding and preventive maintenance on service-wide infrastructure conditions and their expected life spans are not immediately apparent and will be unknown for several more years. Moreover, the amount of future increased costs that may be needed to restore infrastructure to required conditions was also undetermined at the time of

our review. However, officials stated that reductions to preventive maintenance and repairs eventually necessitate increased investment to repair or replace deteriorated infrastructure or to demolish facilities that are no longer safe or require cost-prohibitive restoration. This is consistent with our prior work. In April 2008 and May 2009, we found that deferring sustainment of DOD facilities will likely result in continued facility deterioration and higher future costs.⁷⁵

In addition, the services identified some instances of compressed time frames for awarding operating support and infrastructure contracts that may have led to higher contract costs. According to Army, Navy, and Air Force officials, uncertainty about funding levels for base operating support for much of fiscal year 2013 was exacerbated by sequestration. The duration of this uncertainty about base operating support budgets reduced the amount of time available for commands to award many of their contracts relative to the available time in prior years. For example, the Navy awarded about \$570 million worth of various facilities sustainment, restoration, and modernization contracts within the last 2 weeks of fiscal year 2013. This amount represented a 10 percent increase over the dollar amount of contracts awarded during the same 2-week period of the prior year. Navy and Air Force officials told us that the limited time they had to review and negotiate contracts likely resulted in some higher prices, but stated that those additional costs cannot be determined.

Delaying the Completion of Infrastructure Projects to Future Years Exacerbated Preexisting Backlogs

Officials from 7 of 10 service components told us or reported to DOD that they delayed the completion of infrastructure projects and repairs in fiscal year 2013 due to sequestration reductions. According to these officials, the delayed work exacerbated existing backlogs and in turn contributed to deferrals of other repairs and projects in fiscal year 2014.

Service component officials told us that, from year to year, they generally defer some portion of infrastructure projects for a variety of reasons, such as the emergence of other competing priorities, the inability to design and execute projects during the year due to complications that arise (e.g.,

⁷⁵GAO, *Defense Infrastructure: Continued Management Attention Is Needed to Support Installation Facilities and Operations*, [GAO-08-502](#) (Washington, D.C.: Apr. 24, 2008); *Defense Infrastructure: DOD Needs to Periodically Review Support Standards and Costs at Joint Bases and Better Inform Congress of Facility Sustainment Funding Uses*, [GAO-09-336](#) (Washington, D.C.: May 30, 2009).

weather delays or environmental effect considerations), and requirements that exceed available funding. According to service installation management officials we spoke with, the total dollar amount or quantity of deferred infrastructure projects in any given year cannot always be attributed specifically to one factor over another, including sequestration reductions in fiscal year 2013. However, these officials also told us that sequestration-related spending reductions contributed to their decisions to defer facility maintenance and projects in fiscal year 2013, thus exacerbating an already growing backlog of projects and repairs over the past years. For example, Army installation management officials told us that certain utilities modernization and upgrade projects were not completed in fiscal year 2013 as a result of sequestration and the lower priority assigned to those types of projects compared to others related to health or safety, such as airfield runway repairs. Likewise, the Air Force and Navy told us that they deferred some energy efficiency projects that were expected to lead to longer-term savings and expedite the achievement of energy savings goals.

According to testimony by the Chief of Staff of the Army in November 2013, sequestration reductions that the Army applied to its facility sustainment funding in particular, which totaled about \$1 billion, contributed to a backlog of approximately 158,000 maintenance work orders at the end of fiscal year 2013—an estimated 500 percent increase over the prior year.⁷⁶ However, Army installation management officials told us that the estimated number of unfilled work orders may understate the value and quantity of maintenance that was not performed in 2013 because the Army conveyed informal guidance directing base personnel to refrain from submitting non-essential work order requests that year due to the limitations on available sustainment funding across installations.

Similarly, officials from the eight active-component Air Force commands that we interviewed and the Air National Guard reported various delays to routine maintenance, repairs, or infrastructure inspections related to reductions to sustainment funding. For example, Air Force Special Operations Command officials told us that some recurring tasks, such as airfield vegetation clearing and runway rubber removal and re-striping, were delayed to fiscal year 2014 to accommodate more urgent tasks or

⁷⁶General Raymond T. Odierno, Chief of Staff, United States Army, *The Effects of Sequestration on National Defense*, testimony before the Senate Committee on Armed Services, 113th Cong., 1st sess., Nov. 7, 2013.

Spending Reductions to Base Operating Support Led to Some Shortfalls in Availability of Certain Personnel, Equipment, and Facilities

projects. They explained that this in turn contributed to the delayed completion of facility repair and construction projects that were planned for that year. Air Combat Command officials also reported that they delayed infrastructure inspections planned for two of the command's bases in fiscal year 2013 by 1 year because of reduced funding. As a result, officials stated that they had to prioritize those bases' infrastructure projects based on outdated facility condition assessments and the projects likely received lower priority for funding than others for which more current assessment ratings were available.

Fiscal year 2013 sequestration-related spending reductions led to some shortfalls in personnel, equipment, and facility availability for certain base operating support functions and programs, which increased program risks and caused some disruptions to training and operations. For example, five of eight active component Air Force commands reported to us that some of their installations experienced reduced fire and emergency response personnel or related equipment, fewer security force personnel and vehicles than needed, or both. Air Force officials said the shortfalls decreased their response capability for responding to critical incidents like aircraft fires or fuel spills, and to the air base defense program. However, officials were unable to quantify the specific number of personnel shortfalls or risk based on decisions to reduce funding for these base services.

Additionally, Air National Guard officials told us that sequestration affected the availability of some facilities for training. Specifically, Guard officials stated that they anticipated and planned for a sequestration reduction of about 35 percent (approximately \$100 million) to the component's infrastructure budget in fiscal year 2013. As a result of the expected budget reduction, the Air National Guard withheld facilities sustainment funding and reduced expenses. According to officials, these reductions, compounded by civilian personnel shortfalls due to the 6-day furlough, delayed the availability of certain facilities for training purposes until later in the fiscal year when the Guard allocated additional funds to its infrastructure budget.

According to internal Navy briefings and summaries provided to service leadership, sequestration reductions to base operating support funding and the reduced availability of civilian personnel due to sequestration-related hiring freezes or furloughs led to decreased capacity in port and airfield operations. For example, across installations, port operations were restricted to normal business hours unless a flag officer exemption was granted to permit after-hours access. This restriction in turn led to some

increased costs associated with additional steaming time for ships that arrived late or early to port. Specifically, Naval Surface Force Atlantic calculated that it cost the command an additional \$135,000 for three ships to auxiliary steam when they could not connect to shore power because of the port-hour restrictions.

Service Components Focused Reductions toward Lower-Priority Infrastructure Projects and Used Available Flexibilities to Mitigate Some Effects of Sequestration

Service officials told us they applied the fiscal year 2013 sequestration reductions more heavily toward funding for infrastructure projects that they considered to be non-essential as opposed to funding for certain operating support services, such as facility leases and utilities. The service components' sequestration reduction to infrastructure-related subactivity groups (about \$2.8 billion) was nearly three times higher than the reduction amount applied to operating support subactivity groups (approximately \$1 billion).

Based on our interviews with service budget officials and our review of budget execution data, the services also relied on existing funding flexibilities, such as transfer and reprogramming authorities, to mitigate the effects of sequestration on base operating support. In fiscal year 2013, the service components collectively transferred or reprogrammed about \$1.5 billion of funds from other budget activities or accounts to the base operating support category. Service budget office officials told us that the additional funds enabled them to restore funding to some activities or projects that had been initially reduced or cancelled, as well as to fund emergent priorities that were not factored into the budget.

Transfers or reprogramming of funds into the base operating support category sometimes reflected the services' decisions to reprioritize and invest in infrastructure. For example, Army Reserve officials told us that funds transferred or reprogrammed into its infrastructure subactivity group within the base operating support category helped mitigate the effects of reductions to infrastructure funding earlier in the year that were made in planning for sequestration. In addition, officials from the Navy's budget office told us they utilized transferred or reprogrammed funds from other areas of their budget to reinvest in facilities and other infrastructure during the fourth quarter of fiscal year 2013 at the behest of Navy leadership due to the critical importance of port and airfield conditions to fleet readiness. Transfers or reprogramming actions, as well as the receipt of some supplemental funding that Congress appropriated for disaster relief

activities in the aftermath of Hurricane Sandy, contributed to the service components' combined end-of-year obligation rate of about 98 percent relative to the amount enacted for the base operating support category.⁷⁷ However, service installation management officials emphasized to us that the timing of these transfer or reprogramming actions and the subsequent availability of these funds limited the time available that they had to apply these funds to areas of greatest priority before the end of the fiscal year.

The services took other actions in response to DOD's guidance on implementing the fiscal year 2013 sequestration that helped them mitigate the effect of reduced resources on base operating support.⁷⁸ For example, service installation management officials told us that they used mechanisms outlined in a DOD memorandum to request certain exceptions to civilian personnel furloughs, or to recall civilians from furlough, in order to mitigate personnel shortfalls in operating support services (among other areas) on a limited basis.⁷⁹ This memorandum permitted requests for exceptions to the furlough to provide additional personnel to fulfill emergency services shortfalls and, as noted earlier, to ensure child development centers had enough care providers to maintain accreditation, among other things. In addition, the Army allowed borrowed military personnel to perform duties to mitigate reported shortfalls in base operating support personnel, such as gate guards and groundskeepers.⁸⁰ In a February 2013 memorandum signed by the Assistant Secretary of Defense for Readiness and Force Management, DOD recognized the risk that the use of borrowed personnel may pose to readiness and training.⁸¹

⁷⁷Disaster Relief Appropriations Act, 2013, Pub. L. No. 113-2 (2013).

⁷⁸DOD, Deputy Secretary of Defense Memorandum, *Handling Budgetary Uncertainty in Fiscal Year 2013* (Jan. 10, 2013).

⁷⁹DOD, Secretary of Defense Memorandum, *Furloughs* (May 14, 2013).

⁸⁰DOD memoranda and Army Regulations and memorandums refer to "borrowed military manpower" which we refer to as borrowed military personnel. 'Borrowed military personnel' is defined by Army regulations. Army Regulation 570-4 defines borrowed military personnel as one part of the larger category of use named "special duty ". DOD has not institutionalized a department-wide definition for borrowed military personnel, but has used the term to refer to the use of military personnel to perform work that is performed by government civilians or contracted services.

⁸¹DOD, Assistant Secretary of Defense for Readiness and Force Management Memorandum, *Total Force Management and Budgetary Uncertainty* (Feb. 21, 2013).

The Secretary of the Army echoed this point in a March 2013 memorandum.⁸²

⁸²Department of the Army, Secretary of the Army Memorandum, *Special Duty (Borrowed Military Manpower and Troop Diversion) – Temporary Suspension of Certain Army Policy Constraints and Temporary Delegation of Certain Exception and Other Approval Authorities* (Mar. 11, 2013).

Case Study 4 - RDT&E and Procurement Accounts: Selection of DOD and Military Service Acquisition Programs for Weapon Systems

Overview

Figure 16: Description of Research, Development, Test, and Evaluation (RDT&E) and Procurement and Related Fiscal Year 2013 Budgetary Resources

DOD's RDT&E accounts fund the development of weapon systems while the procurement accounts fund the procurement of weapon systems.

- RDT&E-related efforts are performed by contractors and government organizations for equipment and weapon systems, among other things.
- Procurement is the purchasing of capital equipment such as ships, aircraft, ground vehicles, and other weapon systems or items after their development.
- RDT&E funds are normally available for obligation up to 2 years while procurement funds are normally available for obligation for up to 3 years.
- Development and procurement efforts associated with a weapon system are generally managed by an acquisition program office.



DOD's fiscal year 2013 sequestrable base for its RDT&E and procurement accounts was about \$221 billion out of its total sequestrable base of approximately \$527.7 billion.^a



DDG 1000 Destroyer (Navy)



F-22 Raptor aircraft (Air Force)



Paladin Integrated Management Vehicle (Army)



F-35 Joint Strike Fighter aircraft (joint Air Force and Navy)

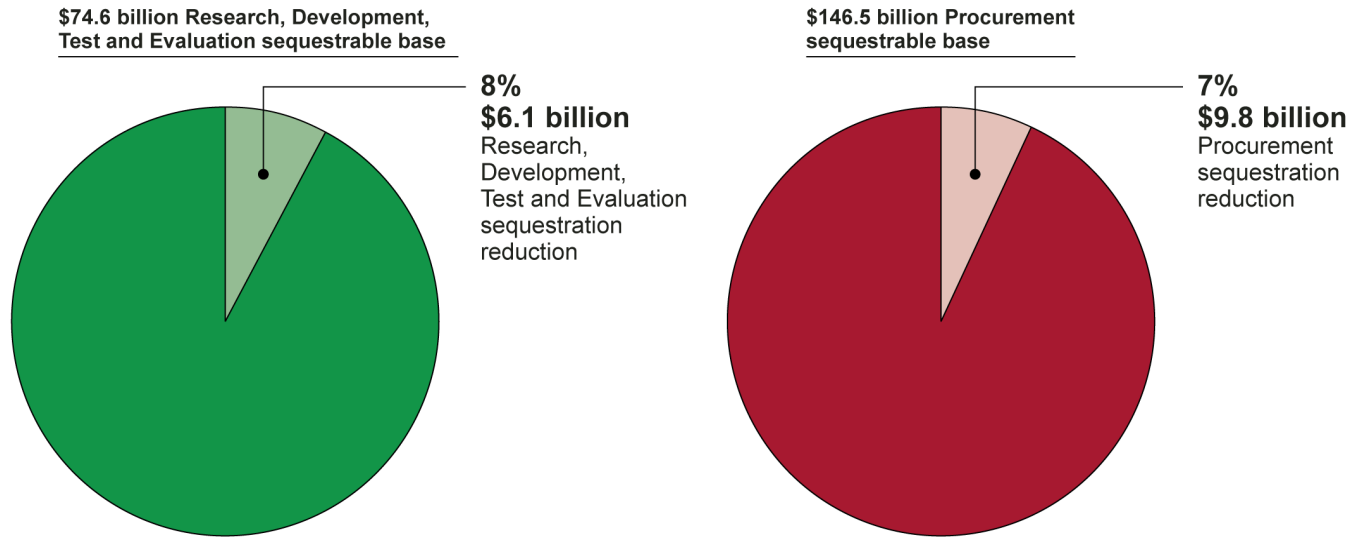
Sources: GAO analysis of Department of Defense (DOD) data and information (text); Photos (clockwise from upper left): DDG-1000 Destroyer (Bath Iron Works), F-22 Raptor aircraft (DOD), F-35 Joint Strike Fighter aircraft (Lockheed Martin), and Paladin Integrated Management Vehicle (DOD). | GAO-15-470

^aThe fiscal year 2013 sequestrable base amounts included fiscal year 2013 enacted amounts and prior year unobligated balances

DOD and the Services Reduced their Budgetary Resources for RDT&E Accounts by About 8 Percent and Procurement Accounts by About 7 Percent and Applied a Larger Share of the Reductions to Fiscal Year 2013 Funds than to Prior Year Unobligated Balances

Total fiscal year 2013 sequestration reductions for the RDT&E and procurement accounts were about \$6.1 billion and \$9.8 billion, respectively, which was a reduction of about 8.1 percent and 6.7 percent of the 2013 sequestrable base, and included both fiscal year 2013 funding and prior year unobligated balances, according to our analysis of DOD’s budget execution data (see fig. 17).

Figure 17: Sequestration Reductions Relative to Total Sequestrable Base for Research, Development, Test, and Evaluation and Procurement Accounts, Fiscal Year 2013



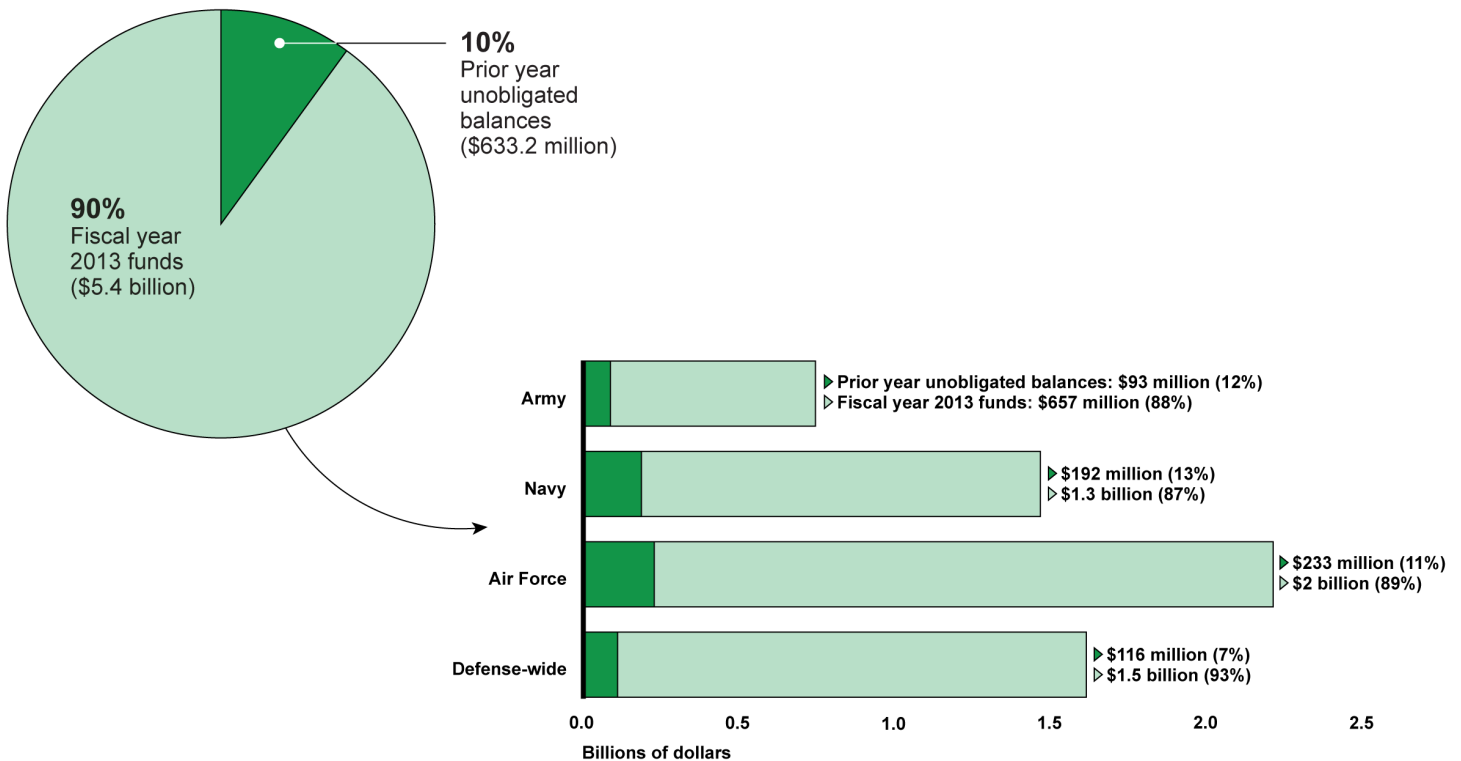
Source: GAO analysis of Department of Defense (DOD) data. | GAO-15-470

Within the combined RDT&E and procurement accounts, DOD (in the defense-wide accounts) and the military services took sequestration reductions from either fiscal year 2013 funds, prior year unobligated balances, or a combination of the two. Within the RDT&E accounts, about 90 percent (\$5.4 billion) of the sequestration reduction came from fiscal year 2013 funds, while the remaining \$633.2 million came from prior year

unobligated funds, as illustrated in figure 18. Also as shown in figure 18, the overwhelming majority of RDT&E sequestration reductions across all DOD components were from fiscal year 2013 funds.

Figure 18: Research, Development, Test and Evaluation Sequestration Reductions by Component, Fiscal Year 2013

\$6.1 billion sequestered from Research, Development, Test, and Evaluation (RDT&E)

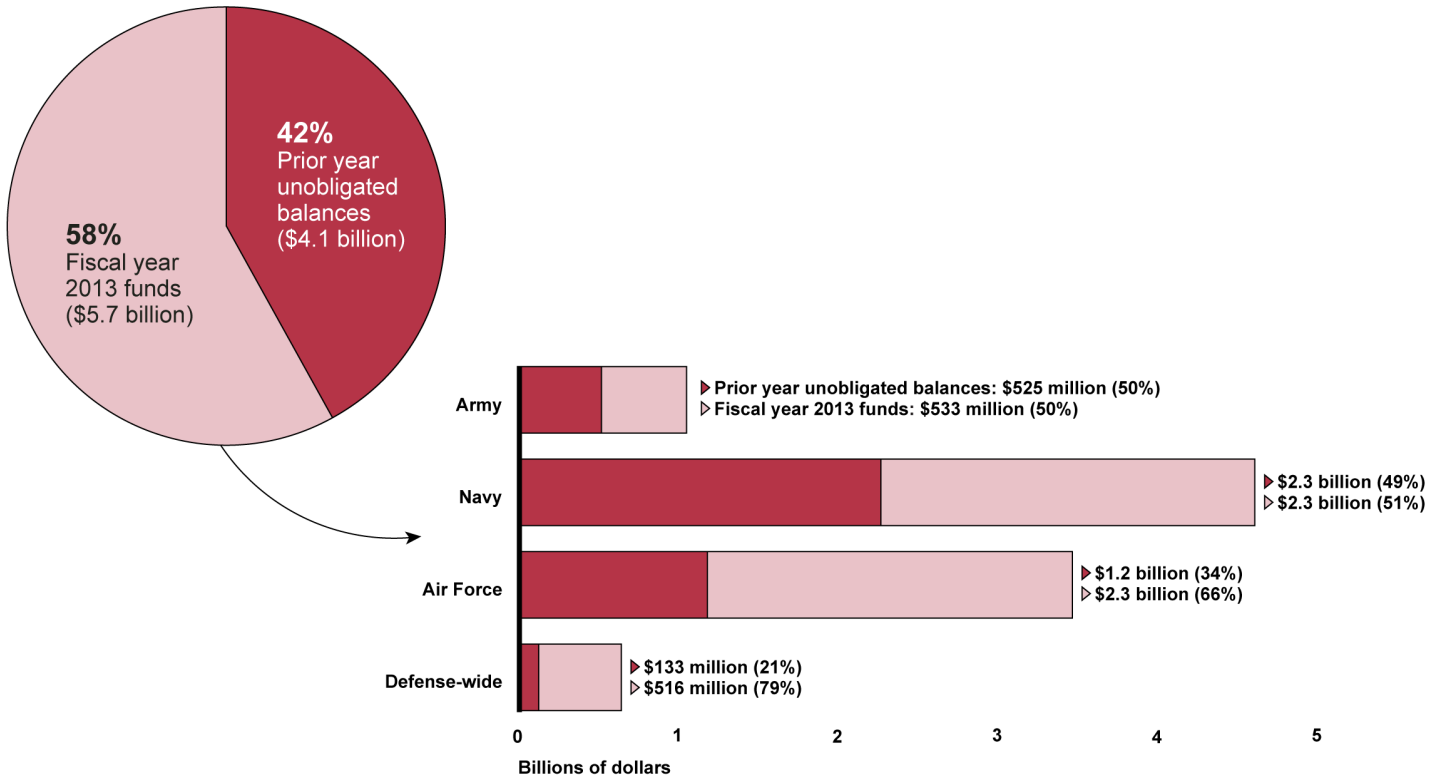


Source: GAO analysis of Department of Defense (DOD) data. | GAO-15-470

Within the procurement accounts, about 58 percent (\$5.7 billion) of the sequestration reduction came from fiscal year 2013 funds, while the remaining \$4.1 billion came from prior year unobligated funds, as illustrated in figure 19 below. As also shown in figure 19, the Army and Navy, while taking vastly different amounts of reductions in terms of dollars, took approximately equal proportions from their fiscal year 2013 funds and prior year unobligated balances while the majority of the Air Force and defense-wide reductions came from fiscal year 2013 funds.

Figure 19: Procurement Sequestration Reductions by Component, Fiscal Year 2013

\$9.8 billion sequestered from Procurement



Source: GAO analysis of Department of Defense (DOD) data. | GAO-15-470

In our case study selection of the acquisition programs associated with 19 weapon systems, we found the fiscal year 2013 sequestration reduced either RDT&E or procurement funds or a combination of the two, based on our analysis of DOD data. Specifically, sequestration reduced RDT&E funds for 19 of the weapon systems by \$713 million and it reduced procurement funds for 16 of the weapon systems by a total of \$2.2 billion.⁸³

⁸³RDT&E budget lines for four of the weapon systems were shared lines, containing some funding for activities beyond the weapon systems we reviewed. For details on these lines, see notes to Table 2 below.

DOD and the services took those sequestration reductions from a combination of fiscal year 2013 funds and prior year unobligated balances for 16 of the 19 weapon systems in our case study. All 19 weapon systems we reviewed used fiscal year 2013 funds to cover some portion of the sequestration reductions. Likewise, 16 weapon systems used available prior year unobligated balances to cover some of the sequestration reduction. Table 2 provides details on the sequestrable base, sequestration reduction, and the source of funds of the reduction for each of the 19 weapon systems in our case study.

Table 2: Sequestration Reductions to Research, Development, Test, and Evaluation (RDT&E) and Procurement Funding for 19 Department of Defense Weapon Systems, Fiscal Year (FY) 2013

Dollars in thousands

Weapon system by service	Funding type	Sequestrable Base		Sequestration Reduction			Sourcing of Sequestration Reduction	
		Available prior year unobligated balances	FY 2013 funding	Total sequestrable base	Total dollar amount sequestered	Percentage of base	Taken from prior year unobligated balances	Taken from FY 2013 funding
Army								
AH-64E Apache Helicopter	RDT&E ^a	\$3,085	\$225,849	\$228,934	\$18,065	8%	0 (0%)	\$18,065 (100%)
	Procurement	105,705	1,129,930	1,235,635	87,597	7%	27,197 (31%)	60,400 (69%)
MQ-1C Gray Eagle Unmanned Aircraft System	RDT&E ^b	11,611	102,984	114,595	9,042	8%	3,217 (36%)	5,825 (64%)
	Procurement	208,252	597,908	806,160	54,908	7%	7,771 (14%)	47,137 (86%)
OH-58D/OH-58F Kiowa Warrior Helicopter	RDT&E	5,550	90,375	95,925	7,569	8%	596 (8%)	6,973 (92%)
	Procurement	31,946	240,326	272,272	10,731	4%	4,370 (41%)	6,361 (59%)
Paladin Integrated Management	RDT&E	40	167,575	167,615	13,227	8%	0 (0%)	13,227 (100%)
	Procurement	0	205,829	205,829	17,600	9%	0 (0%)	17,600 (100%)
Warfighter Information Network – Tactical Increment 3	RDT&E	11,278	181,179	192,457	15,187	8%	517 (3%)	14,670 (97%)
	Procurement	0	0	0	0	N/A	0 (0%)	0 (0%)
Navy								
AIM-9X Block II Sidewinder Missile	RDT&E ^c	553	21,079	21,632	1,777	8%	23 (1%)	1,754 (99%)
	Procurement	4,688	74,169	78,857	6,218	8%	1,081 (17%)	5,137 (83%)
CH-53K King Stallion Helicopter	RDT&E	1,836	605,404	607,240	49,654	8%	1,099 (2%)	48,555 (98%)
	Procurement	0	0	0	0	N/A	0 (N/A)	0 (N/A)

Appendix I: Case Study Observations

Dollars in thousands

Weapon system by service	Funding type	Sequestrable Base		Sequestration Reduction			Sourcing of Sequestration Reduction	
		Available prior year unobligated balances	FY 2013 funding	Total sequestrable base	Total dollar amount sequestered	Percentage of base	Taken from prior year unobligated balances	Taken from FY 2013 funding
DDG 1000 Zumwalt Class Destroyer	RDT&E	1,272	124,490	125,762	10,332	8%	0 (0%)	10,332 (100%)
	Procurement	257,189	668,339	925,528	70,279	8%	0 (0%)	70,279 (100%)
E-2D Advanced Hawkeye Aircraft	RDT&E	20,005	127,896	147,901	12,151	8%	12,151 (100%)	0 (0%)
	Procurement	128,118	955,415	1,083,533	81,853	8%	60,202 (74%)	21,651 (26%)
H-1 Helicopter	RDT&E	218	31,064	31,282	2,570	8%	53 (2%)	2,517 (98%)
	Procurement	93,473	887,743	981,216	74,123	8%	19,277 (26%)	54,846 (74%)
Littoral Combat Ship	RDT&E ^d	24,616	414,372	438,988	34,766	8%	0 (0%)	34,766 (100%)
	Procurement	671,865	1,791,892	2,463,757	184,911	8%	140,623 (76%)	44,288 (24%)
P-8A Poseidon Multi-Mission Maritime Aircraft	RDT&E	15,656	435,562	451,182	37,066	8%	5,293 (14%)	31,773 (86%)
	Procurement	422,522	2,707,311	3,129,833	234,161	7%	112,032 (48%)	122,129 (52%)
Virginia Class Submarine	RDT&E	2,316	90,111	92,427	7,593	8%	0 (0%)	7,593 (100%)
	Procurement	1,624,046	4,941,086	6,565,132	498,659	8%	138,350 (28%)	360,309 (72%)
Air Force								
F-22 Raptor Aircraft	RDT&E	11,739	504,600	516,339	42,474	8%	2,700 (6%)	39,774 (94%)
	Procurement	108,074	287,891	395,965	32,200	8%	15,185 (47%)	17,015 (53%)
F-15 Aircraft	RDT&E	12,205	171,450	183,655	15,107	8%	3,589 (24%)	11,518 (76%)
	Procurement	259,374	212,960	472,334	38,397	8%	31,944 (83%)	6,453 (17%)
Global Positioning System III	RDT&E	11,300	318,571	329,871	27,135	8%	45 (0%)	27,090 (100%)
	Procurement	73,058	492,260	565,318	1,895	0%	1,895 (100%)	0 (0%)
KC-46A Tanker Aircraft	RDT&E	1,109	1,736,195	1,737,304	142,914	8%	0 (0%)	142,914 (100%)
	Procurement	0	0	0	0	N/A	0 (N/A)	0 (N/A)

Appendix I: Case Study Observations

Dollars in thousands

Weapon system by service	Funding type	Sequestrable Base		Sequestration Reduction			Sourcing of Sequestration Reduction	
		Available prior year unobligated balances	FY 2013 funding	Total sequestrable base	Total dollar amount sequestered	Percentage of base	Taken from prior year unobligated balances	Taken from FY 2013 funding
Space Based Infrared System High	RDT&E	6,967	530,892	537,859	44,245	8%	0 (0%)	44,245 (100%)
	Procurement	141,511	440,804	582,315	8,776	2%	181 (2%)	8,595 (98%)
Department of Defense								
F-35 Joint Strike Fighter Aircraft	RDT&E	192,087	2,613,703	2,805,790	222,421	8%	4,847 (2%)	217,574 (98%)
	Procurement	4,652,762	5,759,490	10,412,252	822,688	8%	676 (0%)	822,012 (100%)

Source: GAO analysis of Department of Defense (DOD) data. | GAO-15-470

^aAH-64E Apache helicopter RDT&E figures are for a shared Army Aircraft Modifications budget line, for which the AH-64E Apache helicopter represented 44 percent of the fiscal year 2013 budget request.

^bMQ-1C Gray Eagle unmanned aircraft system RDT&E figures include the Army's Tactical Unmanned Aerial Vehicles budget line, for which a portion (14 percent) of the fiscal year 2013 request was for systems other than MQ-1C Gray Eagle unmanned aircraft system.

^cAIM-9X Block II Sidewinder missile RDT&E figures are for a shared Sidewinder Missile budget line, for which AIM-9X Block II Sidewinder missile accounted for 53 percent of the fiscal year 2013 budget request.

^dLittoral Combat Ship RDT&E figures include Mission Modules, which accounted for 46 percent of the fiscal year 2013 budget request.

Program Officials Identified Increased Weapon System Cost, Delayed Time Frames, and Decreases in System Availability

Officials associated with the majority of the 19 weapon systems we reviewed in our case study of the RDT&E and procurement accounts reported experiencing unplanned effects on their programs due, in part, to the fiscal year 2013 sequestration. As many programs aimed to preserve high priorities, such as procurement quantities, the effects of sequestration were still sometimes felt in other areas of the acquisition process. Specifically, RDT&E and procurement program officials across the services identified effects that can be categorized into three primary and interrelated areas—costs and spending, time frames, and system availability. In general, the effects may be interrelated as the development of one effect may have led to the occurrence of others. Additionally, some program officials noted that their weapon system programs may experience potential future effects due to sequestration. Table 3 shows the 19 weapon systems we reviewed and the categories of identified sequestration effects to those systems’ acquisition programs.

Table 3: Weapon Systems Selected for Review, and Department of Defense- (DOD) Identified Effects of Fiscal Year 2013 Sequestration Reductions

System	DOD-identified effects related to costs and spending	DOD-identified effects related to delayed time frames	DOD-identified effects related to availability of weapon systems
Army			
AH-64E Apache Helicopter		X	
MQ-1C Gray Eagle Unmanned Aircraft System			X
OH-58D/OH-58F Kiowa Warrior Helicopter			X
Paladin Integrated Management		X	
Warfighter Information Network - Tactical Increment 3		X	
Navy			
AIM-9X Block II Sidewinder Missile		X	
CH-53K King Stallion Helicopter	X	X	X
DDG 1000 Zumwalt Class Destroyer		X	
E-2D Advanced Hawkeye Aircraft		X	
H-1 Helicopter	X	X	X
Littoral Combat Ship		X	
P-8A Poseidon Multi-Mission Maritime Aircraft	X	X	X
Virginia Class Submarine		X	

System	DOD-identified effects related to costs and spending	DOD-identified effects related to delayed time frames	DOD-identified effects related to availability of weapon systems
Air Force			
F-22 Raptor Aircraft		X	X
F-15 Aircraft	X	X	X
Global Positioning System III		X	X
KC-46A Tanker Aircraft			
Space Based Infrared System High		X	X
Department of Defense			
F-35 Joint Strike Fighter Aircraft			

Source: GAO analysis of Department of Defense (DOD) data. | GAO-15-470

Overall, officials from acquisition programs associated with 4 of the 19 weapon systems we reviewed identified effects in all three categories.⁸⁴ Officials for 2 weapon systems stated that the fiscal year 2013 sequestration had no immediate effects—the Air Force’s KC-46 Tanker and the joint Air Force and Navy F-35 Joint Strike Fighter. Officials from the acquisition programs for both of these weapon systems stated that they were financially positioned to manage the sequestration reductions and withstand immediate effects. For example, officials stated the KC-46 was protected from any detrimental effects as they had built in buffer dollars that were initially set aside for potential risk incurred for changes in contracts and/or testing. This shielded them from potential sequestration reductions. According to KC-46 officials, the sequestration reduction of \$143 million in RDT&E dollars was covered solely by fiscal year 2013 funds that were available due to a combination of unused engineering change orders and savings from an Aircrew Training System contract that was much lower than anticipated.

Effects Related to Costs

Officials from acquisition programs associated with 4 of the 19 weapon systems we reviewed indicated increased costs to particular aspects of their activities were due, at least in part, to the fiscal year 2013 sequestration. For example:

⁸⁴The tally for each of the categories includes only those effects that officials identified as actually having occurred. Potential future effects identified by officials were not included in this overall count.

- Air Force F-15 officials reported that sequestration resulted in late completion and delivery of software development to the integrating contractor. This, in turn, resulted in increased costs to particular aspects of its programmatic activities. According to program officials, the program is currently in negotiations on the exact dollar amount of these increased costs, but the contractor is seeking \$4.2 million. Ultimately, according to these officials, the Air Force would have to pay the negotiated amount to the contractor.
- Navy P-8A Poseidon officials reported that sequestration, in combination with congressional reductions, led to delays in depot maintenance repair capabilities that are anticipated to result in cost savings. According to the officials, the delay in establishing these depot capabilities will defer such cost savings, resulting in a cumulative increase in overall lifecycle costs of \$191 million, of which \$56.7 million was directly attributed to sequestration.
- Navy Littoral Combat Ship officials reported possible future effects due to the fiscal year 2013 sequestration, which reduced its budget for ship construction changes. As a result, more expensive design changes may be carried out subsequent to delivery to the Navy, as the cost to execute these changes at a later stage will be higher.

Effects Related to Delayed and Modified Time Frames

Officials from acquisition programs associated with 15 of the 19 weapon systems we reviewed reported experiencing delays due in part to the fiscal year 2013 sequestration. These included delays in testing, procurement, modernization efforts, and contract awards. For example:

- Army Apache AH-64E officials stated that the combined effects of the fiscal year 2013 sequestration and the continuing resolution affected the timeline for acquisition decisions for the AH-64E Apache in fiscal years 2013 and 2014 and fiscal year 2014 aircraft procurements, which resulted in contract changes and delays to time frames for evaluating and negotiating the system's contract.
- Navy CH-53K officials reported that sequestration reductions contributed to a two-month delay to the program's schedule, including the start of low-rate initial production, where small quantities of the system are produced for testing and evaluation before producing greater quantities for fielding. These officials told us the delays affected acquisition milestones and the fielding of a more capable helicopter, and estimated that sustaining the program for an additional 2 months would increase estimated program costs by about \$20 million to \$30 million.

Effects Related to System Availability

- Navy AIM-9X Block II officials did not report an immediate effect due to the fiscal year 2013 sequestration. However, program officials stated that certain obsolescence redesign activities for outdated software and hardware and procurement of additional missile telemetry equipment were deferred because of sequestration reductions, which they indicated could result in a future production gap.

Officials from acquisition programs associated with 9 of 19 weapon systems we reviewed reported experiencing reduced or deferred system development or procurement efforts as a result of fiscal year 2013 sequestration reductions, which in turn delayed the release of these enhanced systems to the warfighter. For example:

- Space Based Infrared System High (SBIRS High)⁸⁵ officials stated that budget constraints from a \$7.1 million sequestration reduction to procurement funds, along with the then-ongoing fiscal year 2013 continuing resolution, led them to re-plan their mobile acquisition strategy, which resulted in the procurement of fewer mobile ground platforms to meet full operational capability.⁸⁶ According to officials, in order to ensure the SBIRS High system maintains capabilities under applicable threat environments, five upgraded mobile ground platforms are required. However, due to the re-plan and sequestration reductions, SBIRS High now has three mobile ground platforms. According to officials, the loss of two platforms reduces the ability of SBIRS High s to meet overall requirements.
- Army MQ-1C Gray Eagle unmanned aircraft system officials told us that a reduction in procurement funds due to sequestration resulted in deferrals and delays for procuring a number of upgrades to the system, including radio upgrades, new shipping containers, and an

⁸⁵Space Based Infrared System High (SBIRS High) is an integrated system consisting of multiple space and ground elements, with incremental deployment phasing, simultaneously satisfying requirements in the following mission areas: Missile Warning, Missile Defense, Technical Intelligence, and Battlespace Awareness. The constellation architecture for SBIRS High includes Highly Elliptical Orbit sensors and Geosynchronous Earth Orbit satellites, in addition to the following ground elements: a Continental United States-based Mission Control Station and Mission Control Station Backup, overseas Relay Ground Stations, Mobile Ground Stations, and associated communication links.

⁸⁶In general, full operational capability is attained when all units and/or organizations in the force structure scheduled to receive a system 1) have received it and 2) have the ability to employ and maintain it.

engine lifetime extension. These deferrals could, in turn, delay the eventual fielding of the upgraded aircraft to the warfighter, since they increase the risk that the system may not receive necessary certifications that it is safe and suitable for use.

- Navy H-1 officials stated that the Marine Corps helicopter fleet will rely on some older aircraft longer than originally intended. This delayed full fielding of H-1 capability means that the warfighter may have to meet some missions through continued use of legacy aircraft.

Existing Priority-Setting Processes Were Used to Manage Sequestration Reductions, with Budget Flexibilities and Additional Appropriated Funds Helping Offset Some of the Reductions

Officials from acquisition programs for the 19 weapon systems we reviewed stated that their programs did not develop or implement sequestration-specific mitigation processes to manage fiscal year 2013 sequestration effects, but instead relied on internal prioritization processes and existing funding flexibilities. Prior to DOD finalizing sequestration percentage reductions, these program officials relied on existing priority-setting processes to determine what requirements necessitated immediate funding and what could be delayed. For a majority of the systems we reviewed, program officials stated the process was aimed at avoiding production breaks, procurement reductions, schedule effects, or fielding of capabilities. Prior to the finalization of the actual sequestration percentage, according to some program officials, programs were executing drills on a range of potential percentage (e.g. 10 to 30 percent) cuts to determine what priorities would be funded, deferred or eliminated and the overall effect that decision would have on the program. According to multiple program officials for the weapon systems we reviewed, this re-prioritization of requirements allowed officials to consider how best to prepare to manage the funding reductions to their programs.

DOD and the services also utilized available budgetary processes to manage fiscal year 2013 sequestration reductions to the RDT&E and procurement accounts. Management actions included use of transfers or reprogrammings, use of fiscal year 2013 funds, and future year budget requests. For example, according to Navy officials, they used a combination of a \$127 million reprogramming in fiscal year 2013 and an additional \$227 million of appropriated funds provided in fiscal year 2014 to directly counter sequestration's effects on the Virginia Class submarine. In fiscal year 2013, the Navy's DDG 1000 also received a reprogramming in the amount of \$70.3 million, which helped address funding shortfalls caused by the fiscal year 2013 sequestration. However, program officials reported that some effects, such as the delayed

exercising of a contract option, had already been realized. According to program officials, the Air Force's KC-46 managed its \$143 million sequestration reduction by utilizing existing fiscal year 2013 funds. Similarly, SBIRS High officials stated that they requested additional funds in the fiscal year 2015 Presidential Budget to help offset fiscal year 2013 sequestration reductions.

While the acquisition programs for the weapon systems we reviewed may have received additional RDT&E and procurement funding through reprogramming, transfers, or other means, the provision of those funds might not have entirely eliminated effects to those programs. For example, according to officials, the subsequent reprogramming alleviated but did not entirely eliminate an effect to SBIRS High. As noted above, according to program officials, the Air Force procured fewer SBIRS High ground vehicles than originally planned. However, program officials also expected a \$44.2 million RDT&E sequestration reduction that would have forced delays to the completion of the ground element, which was considered unacceptable. Air Force officials stated that to address this concern they took funds from other programs to provide SBIRS High with additional funding. These officials said that doing so restored funding to the cost estimate necessary to preserve the ground vehicle completion schedule. According to officials, reprogramming was also used to restore sequestered funding for operational capability of a parabolic dish subsystem antenna for the program's sustainment lab. These officials explained that the absence of the antenna would have reduced operational capability due to use of one operational vehicle to conduct any modification testing.

In fiscal year 2013, the procurement accounts for the Air Force, Army, and Navy had approximately \$2.0 billion of fiscal year 2013 funds transferred out from their procurement lines and realigned for other military needs. For RDT&E accounts across the services, \$345.6 million of fiscal year 2013 funds was transferred out from their RDT&E lines and realigned for other military needs, according to budget documentation. The movement of those funds could have been in response to sequestration or for other reasons. Irrespective of the services' motives for reprogramming the funds, the programs that received the funds could then apply them to the areas of the program that were affected by the fiscal year 2013 sequestration.

Based on our analysis, by the end of fiscal year 2013, acquisition programs for 3 of the 19 weapon systems we reviewed had additional funds transferred or reprogrammed into them (Virginia class submarine,

DDG 1000 and F-35). By contrast, programs for 3 other weapon systems had their funding reduced as a result of transfers or reprogrammings (AH-64E Apache, F-15 and F-22). Acquisition programs for the remaining 13 weapon systems neither received nor forfeited funds as a result of transfers or reprogrammings. While the specific reasons for these transfers or reprogrammings for AH-64E Apache, F-15 and F-22 were not transparent, we could determine through budget analysis that, as noted above, the Navy's Virginia class submarine and DDG-1000 received transferred or reprogrammed funds to mitigate shortfalls created by the fiscal year 2013 sequestration. Also, according to F-15 officials, their fiscal year 2013 RDT&E and procurement funding were decreased by a transfer of \$10 million and \$14.0 million, respectively, to provide funding for critical readiness shortfalls resulting from sequestration, specifically to pay for Air Force Operation and Maintenance shortfalls.

Case Study 5 - Military Construction Accounts: DOD and Military Services' Major Military Construction Projects

Overview

Figure 20: Description of Military Construction and Related Fiscal Year 2013 Budgetary Resources

DOD's military construction accounts fund construction, development, conversion or extension carried out with respect to a military installation, whether to satisfy temporary or permanent requirements, subject to certain exceptions. Examples of programs funded by military construction accounts include:

- major construction;
- unspecified minor construction;
- base realignment and closure; and
- family housing.

Military construction accounts fund projects within the United States and worldwide, and separate accounts exist for the active and reserve components, defense-wide projects, and other programs and activities.



Sources: GAO analysis of Department of Defense (DOD) data and information (text); Defense Video and Imagery Distribution System (photos). | GAO-15-470

^aThe fiscal year 2013 sequestrable base amounts included fiscal year 2013 enacted amounts and prior year unobligated balances.

Notes: Accounts for the Army, Navy, Air Force, Army National Guard, Air National Guard, Army Reserve, Navy Reserve, Air Force Reserve, and defense-wide are funded by military construction appropriations. Marine Corps and Marine Corps Reserve projects are funded by the Navy and Navy Reserve military construction accounts, respectively.

DOD and Certain Service Components Reduced Their Budgetary Resources for Military Construction Accounts by About 4 Percent

Sequestration reductions to the military construction accounts in fiscal year 2013 totaled about \$821 million, which represented a reduction of about 4 percent of the sequestrable base.⁸⁷ Sequestration reduced budgetary resources within the military construction accounts of four military service components—Army Reserve, Army National Guard, active Navy, and Navy Reserve—and the defense-wide military construction account. By contrast, because the military construction accounts of the active Army, the active Air Force, Air Force Reserve, and Air National Guard had appropriated amounts significantly lower than the baseline set by the Office of Management and Budget, no sequestration reductions were made for those four accounts.⁸⁸

DOD officials told us that the fiscal year 2013 sequestration reductions were applied evenly at the project level for major military construction projects and the budget activity level for other items like minor construction and planning and design within each of the affected military construction accounts.⁸⁹ Accordingly, each applicable service component and the defense-wide account were given a fixed percentage by which the funds for each project and budget activity in their military construction accounts would be reduced.

As shown in figure 21, about 74 percent (\$604 million) of the \$821 million fiscal year 2013 sequestration reduction was applied to major military construction projects. The remaining balance of sequestration reductions was applied to line items such as minor construction and planning and design. Of the \$604 million reduction applied to major military

⁸⁷Within military construction accounts, the sequestrable base included base and overseas contingency operations funding plus any unobligated balances from prior fiscal years.

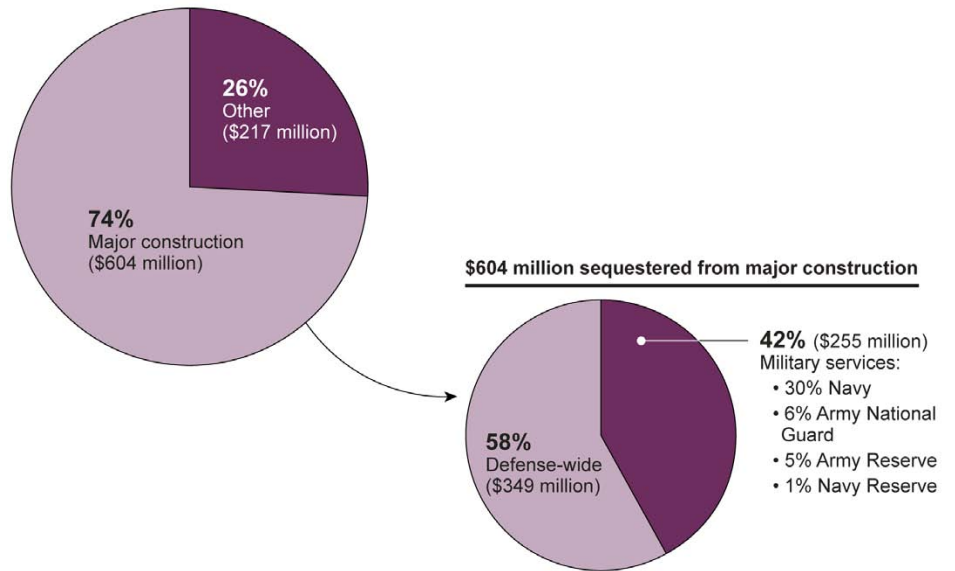
⁸⁸Section 253(f)(2) of the Balanced Budget and Deficit Control Act (codified as amended at 2 U.S.C. § 903(f)(2)) provides for a reduction in the amount of sequestration for certain accounts initially funded under a part-year continuing resolution when the enacted full-year appropriation is less than the baseline for that account. OMB defined the baseline in this context as the annualized part-year continuing resolution amount minus the sequestration amount calculated in OMB's March 1st Report. Accounts with appropriated amounts below that baseline had their sequestration amounts reduced pro rata.

⁸⁹Military construction projects must generally be specifically authorized on a project by project basis, subject to certain exceptions. Projects that have been specifically authorized by law are sometimes called major military construction projects to distinguish them from, among other things, minor unspecified military construction projects authorized by 10 U.S.C. § 2805.

construction projects, 58 percent consisted of defense-wide projects, and 42 percent were military service component projects.

Figure 21: Military Construction Sequestration Reductions, Fiscal Year 2013

\$821 million sequestered from military construction

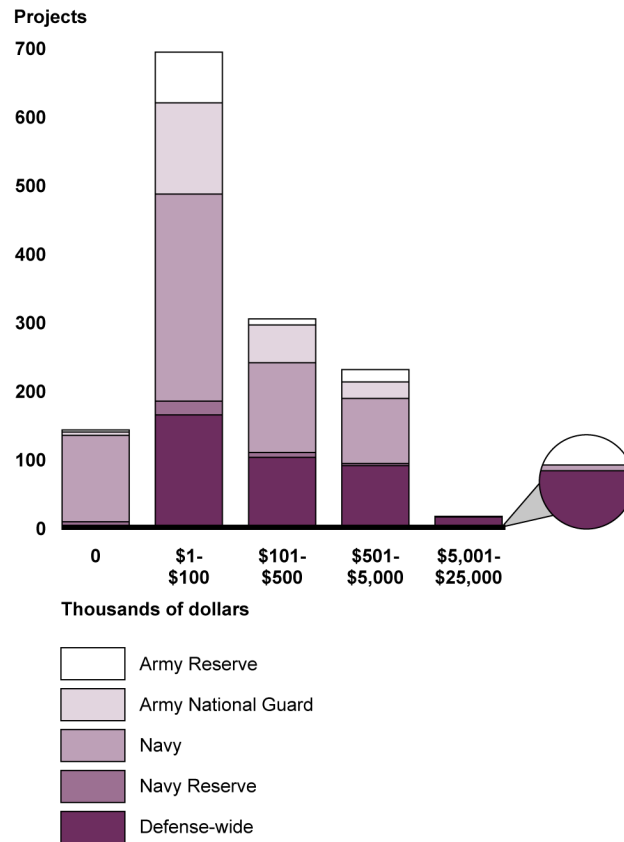


Source: GAO analysis of Department of Defense (DOD) data. | GAO-15-470

Note: Other items funded through military construction accounts include planning and design activities, base closure activities, minor construction, and chemical demilitarization construction, among others.

The five military construction accounts that experienced sequestration reductions had a total of 1,385 major military construction projects among them. The reductions to individual military construction projects varied by account and ranged between 3 percent and 8 percent. Applying these percentage reductions, reductions in individual major military construction projects ranged between approximately \$1,000 and \$23 million. Figure 22 shows the distribution of reductions across major military construction projects subject to sequestration. More than 50 percent of the 1,385 major military construction projects subject to sequestration had reductions of less than \$100,000.

Figure 22: Number of Major Construction Projects by Dollar Value of Sequestration Reduction, Fiscal Year 2013



Source: GAO analysis of Department of Defense (DOD) data. | GAO-15-470

No Military Construction Projects Were Cancelled, Deferred, or Reduced in Scope Because of Sequestration, But Some Delays in Awarding Projects Can be Attributed to Sequestration

Prior to implementing the sequestration reductions in March 2013, the Office of the Under Secretary of Defense (Comptroller) directed that, among other things, the scope of military construction projects should not be reduced and projects should not be deferred or cancelled due to sequestration. Consistent with this, officials from all four of the service components and the defense-wide account that had military construction projects subject to sequestration reductions told us that no projects were reduced in scope, deferred, or cancelled.

While DOD and service component officials reported no cancellations, deferrals, or reductions in scope for their military construction projects, some component officials attributed delays in awarding contracts for fiscal year 2013 construction projects to sequestration, among other things.

DOD and service officials said that planning for and implementing the sequestration reductions in fiscal year 2013 required significant staff labor, and they had less time to prepare requests for proposals and review bid submissions for projects. Service component officials told us that sequestration contributed to an increased number of contracts for projects that were not awarded in the fiscal year in which they were funded, and officials told us it is a best practice to award all contracts in the same fiscal year in which the project is funded. For instance, the Navy reported that 33 active component projects were not awarded contracts in fiscal year 2013 out of 54 projects funded. By comparison, in fiscal year 2012, 17 of the active Navy's 57 funded projects were not awarded contracts and were instead awarded in the next fiscal year. Some service component officials told us that delays in awarding fewer contracts for projects than planned could lead to delays in project completion and increased costs to the projects affected, but were unable to quantify the longer-term effects on time frames or costs.

Funding Flexibilities Were Used to Offset the Sequestration Reductions, but May Be Unavailable to Mitigate Future Budget Reductions

Service component and defense-wide officials told us that using available funding flexibilities to reprogram funds helped to mitigate the effect of fiscal year 2013 sequestration reductions, but also stated that bid savings used as a source of reprogrammings may be unavailable to mitigate future budget reductions.⁹⁰ In an effort to minimize the effect of sequestration on military construction projects, in May 2013 the Office of the Under Secretary of Defense (Comptroller) provided verbal direction that available bid savings should be reprogrammed to the extent possible for projects requiring additional funds. Further, according to DOD's verbal guidance, each construction project should be assessed to determine if it could absorb a sequestration reduction, could be completed with below threshold reprogrammings, or would require prior congressional approval for above threshold reprogrammings.⁹¹

⁹⁰Bid savings accrue when the bids for constructing a project are less than the appropriated amount, and DOD uses the funds for a variety of purposes as part of its normal operations to: address unforeseen construction costs; satisfy emerging requirements; and offset reductions and rescissions required by law, among others.

⁹¹Pursuant to DOD's Financial Management Regulation, funds reprogrammed less than \$2 million or 25 percent of the project's funded level are *below threshold* reprogrammings, and funds reprogrammed more than \$2 million or 25 percent of the project's funded level are *above threshold* reprogrammings requiring congressional approval.

Our analysis of DOD's reprogramming data for the military construction accounts showed, in line with the May 2013 direction, that the source for these reprogramming actions consisted primarily of available bid savings from projects appropriated in fiscal years prior to 2013.⁹² DOD and service officials stated that they were able to absorb the effect of sequestration reductions by executing reprogrammings of bid savings from prior year projects. Further, we found that the use of bid savings was more frequent in fiscal year 2013 than in fiscal year 2009 through 2012. For example, in fiscal year 2013, the Navy had 35 military construction projects that required prior approval reprogrammings because of sequestration reductions, whereas in fiscal years 2009 through 2012 the Navy had only 11 total prior approval reprogrammings. DOD and service officials partly attributed this increase in the use of reprogrammings to sequestration.

Bid savings constituted the primary source of funding for reprogrammings in fiscal year 2013. However, DOD and service officials told us that they expect bid savings to accrue at a diminished rate in the future, which could affect their ability to mitigate future budget constraints through this means. Based on our review of DOD data, DOD and the services accrued about \$2.4 billion in bid savings in fiscal year 2009, and in fiscal year 2014 they accrued \$240 million. Some service officials told us that they attributed the decline to, among other things, a less favorable construction market, and they expect the downward trend in bid savings to continue because of market conditions. In addition, based on our review of DOD data, though the total bid savings accumulated between fiscal year 2009 and fiscal year 2014 was about \$8.1 billion, more than \$7.3 billion was used for a variety of purposes, including offsetting the fiscal year 2013 sequestration reduction of about \$821 million, as well as rescissions, reductions and other expenses such as project cost overruns. According to DOD data and officials, this has reduced DOD's accumulated bid savings and left about \$790 million that DOD plans to use for other known expenses. As a result, DOD and service officials told us they would likely be unable to absorb another sequestration reduction of equal or greater size on their military construction accounts, and without the ability to use bid savings to offset future reductions, they would have to defer, cancel, or reduce the scope of projects.

⁹²Funding for military construction projects is typically available for obligations for 5 years. In fiscal year 2013, some projects awarded in fiscal years 2009 through 2012 had unobligated balances available remaining in fiscal year 2013.

Appendix II: Objectives, Scope, and Methodology

The joint explanatory statement accompanying the National Defense Authorization Act for Fiscal Year 2014 included a provision that we review the effects of the fiscal year 2013 sequestration.⁹³ Further, the House Committee on Armed Services requested that we review the implementation and effects of 2013 sequestration on DOD. This report examines (1) how DOD, including the military services, allocated fiscal year 2013 sequestration reductions, (2) what effects, if any, DOD has identified from the fiscal year 2013 sequestration on selected DOD programs, services, and military readiness, and (3) the extent to which DOD took actions to mitigate the effects of the fiscal year 2013 sequestration.

To address these objectives, we included in the scope of this review the sequestration reductions applied by DOD in fiscal year 2013 to its base and overseas contingency operation funding⁹⁴ within the following nonexempt appropriation accounts: operation and maintenance; research, development, test and evaluation (RDT&E); procurement; and military construction.⁹⁵ We selected five types of expenses and investments across these accounts to review in greater detail. The

⁹³House of Representatives Committee on Armed Services Print No. 2, Legislative Text and Joint Explanatory Statement to Accompany H.R. 3304, at 649 (Dec. 2013).

⁹⁴While funding requested as part of DOD's base budget supports the normal, day-to-day operations of the department, DOD also receives additional funds, referred to as overseas contingency operations appropriations, to pay for incremental costs that have resulted from the war in Afghanistan and other contingency operations. Department of Defense Financial Management Regulation 7000.14-R, Vol. 12, Ch. 23 (September 2007), defines incremental costs as costs that would not have been incurred had the contingency operation not been supported.

⁹⁵Certain defense-related programs, projects, and activities were exempted from sequestration in fiscal year 2013. For example, the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, permits the President (subject to certain requirements) to exempt military personnel accounts, and the Office of Management and Budget notified Congress of the President's intent to do so for fiscal year 2013 on July 31, 2012. Other defense-related accounts exempted from sequestration included the Department of Defense Medicare-Eligible Retiree Health Care Fund as well as all programs administered by the Department of Veterans Affairs. In this report, we refer to the operation and maintenance; research, development, test, and evaluation (RDT&E); procurement; and military construction accounts within our scope as *nonexempt* accounts because they were subject to sequestration. We did not include certain other nonexempt accounts (e.g., Environmental Restoration, Army; Afghanistan Security Forces Fund) within the scope of our case studies because they comprised a small portion of DOD's budget in fiscal year 2013.

following sections describe our approach in selecting these case study areas to address each of our objectives.

Case Study Selection

We selected a non-probability sample of five case studies of expenses or investments within DOD to review in detail. In selecting the case studies, we sought to encompass a significant share of the \$37.2 billion in DOD's discretionary resources ordered for sequestration on March 1, 2013, as well as the programs, projects, and activities with the largest expected effects from sequestration in terms of factors such as the amount of sequestration reduction applied and the relationship to military readiness. Based on these criteria, which are discussed in more detail below, we selected the following case studies to represent each type of nonexempt appropriation:

1. operation and maintenance accounts: service components' operational tempo and training;
2. operation and maintenance accounts: service components' maintenance and weapons system support;
3. operation and maintenance accounts: service components' base operating support;
4. RDT&E and procurement accounts: a selection of defense-wide and military service acquisition programs for weapon systems; and
5. military construction accounts: defense-wide and services' major military construction projects.⁹⁶

Overall, these five case studies accounted for roughly \$12.8 billion, or about 34 percent, of the total sequestration ordered for DOD's discretionary budget resources on March 1, 2013, including nearly \$9.3 billion for operation and maintenance reductions, \$2.9 billion for RDT&E and procurement, and \$604 million for military construction. The case study findings provide illustrative examples of sequestration effects and mitigation strategies across the department. While the findings of the five case studies cannot be generalized to all DOD programs, projects,

⁹⁶Military construction projects must generally be specifically authorized on a project-by-project basis, subject to certain exceptions. Projects that have been specifically authorized by law are sometimes called major military construction projects to distinguish them from, among other things, minor unspecified military construction projects authorized by 10 U.S.C. § 2805.

and activities, they reflect a wide range of perspectives across the department.

We used a multistep process to select the programs, projects, or activities within each case study for our review. To select the operation and maintenance case studies, we first grouped the service components' 258 unclassified operation and maintenance account subactivity groups into 11 broad categories that we identified based on our review of DOD's operation and maintenance budget request overview for fiscal years 2013 and 2015, as well as the service components' budget justification materials for these years, which describe the activities and functions by each subactivity group (see table 4).⁹⁷

Table 4: Amount and Percentage of Fiscal Year 2013 Sequestration Reductions within Categories of the Military Services' Operation and Maintenance Accounts

Category	Description of subactivity groups	Sequestration reduction amount	Percentage of the military services' total operation and maintenance reduction
Base Operating Support	Base operations; facilities, sustainment, restoration, and modernization; security programs provided on bases	\$3,825,663,325	27.3%
Operations Support and Transportation	Combat support forces; mission and force readiness support operations; transportation (e.g., movement of materiel)	2,777,065,549	19.8
Operational Tempo and Training	Air operations, ship operations, and land forces operations; (i.e. subactivity groups that fund collective training activities); field level maintenance; direct mission support to the combatant commands	2,727,697,876	19.5
Maintenance and Weapon Systems Support	Depot and other maintenance, ammunition management; cruise and ballistic missiles; other weapons support functions	2,707,188,578	19.3

⁹⁷As part of its budget justification materials, DOD divides its services' operation and maintenance budget requests into four budget activities: (1) operating forces, (2) mobilization, (3) training and recruiting, and (4) administration and service-wide activities. DOD further divides its budget activities into various activity groups, then again into subactivity groups. The number and names of the activity and subactivity groups differ with each service. There are 258 unclassified subactivity groups in total across all services.

Appendix II: Objectives, Scope, and Methodology

Category	Description of subactivity groups	Sequestration reduction amount	Percentage of the military services' total operation and maintenance reduction
Mobilization	Prepositioned stocks; airlift operations (e.g. aircrew training activities); activations and inactivations; industrial preparedness	675,720,262	4.8
Individual Training and Education	Professional development; individual specialized skill training; reserve officer training corps	635,373,008	4.5
Administrative and Management Functions	Administrative and personnel support functions; combatant command core operations; headquarters management functions; international agency support	366,578,516	2.6
Command, Control, and Communications	Information technology support; electronic warfare; meteorology and oceanography	143,565,433	1.0
Recruiting and Advertising	Accessions; recruiting and advertising; junior reserve officer training corps	93,232,171	0.7
Other	Subactivity groups that are not addressed in the other 10 categories	44,930,834	0.3
Execution Year Accounts	Defense environmental restoration account, foreign currency fluctuations, cancelled and close account adjustments	0	0.0
Total	—	\$13,997,015,552	100%

Source: GAO analysis of Department of Defense (DOD) information and data. | GAO-15-470

Note: Numbers may not total due to rounding. Enacted amount includes fiscal year 2013 base and overseas contingency operations funding. We did not include any prior year unobligated balances in the enacted amount because operation and maintenance funding is generally available for obligation for one year only, and any unobligated balances within operation and maintenance accounts are relatively small.

By categorizing the subactivity groups, we narrowed our case study options while also ensuring those options would cover multiple, related subactivity groups and a larger share of the sequestration reductions to the operation and maintenance accounts. To ensure that the budget categories and the placement of subactivity groups therein were valid, we shared our approach with officials from the Office of the Under Secretary of Defense (Comptroller), who generally agreed with our categorization and made suggestions that we incorporated as appropriate. After categorizing the subactivity groups, we selected for our case studies 3 of the 11 operation and maintenance categories that were subject to large reductions across service components based on our analysis of DOD's budget execution data for the fourth quarter of fiscal year 2013, and which, according to our review of DOD readiness reports and budget documents, were most closely linked with military readiness. The other

8 categories were subject to relatively smaller reductions or were less directly related to readiness. The 3 selected categories—operational tempo and training, maintenance and weapon systems support, and base operating support—accounted for about \$9.3 billion, or roughly 66 percent, of the nearly \$14.0 billion fiscal year 2013 sequestration reduction to the service components' operation and maintenance accounts. Appendix III presents a list of the service components' unclassified operation and maintenance subactivity groups, grouped within the 3 categories we selected for our operation and maintenance case studies.

For the RDT&E and procurement case study, we reviewed data from a June 2013 DOD report on sequestration reductions applied to weapon systems or other acquisition programs.⁹⁸ We also analyzed 2013 and 2014 budget data and DOD's 2015 budget documents to identify weapon systems that reported experiencing the greatest sequestration-related effects. Based on this analysis, we chose the following 19 weapon systems managed by the Army, Navy, Air Force, or through a joint acquisition approach:

- **Army (5 systems):** AH-64E Apache Helicopter, MQ-1C Gray Eagle Unmanned Aircraft System, Paladin Integrated Management, Warfighter Information Network--Tactical (WIN-T) Increment 3, OH-58D/OH-58F Kiowa Warrior Helicopter.
- **Navy (8 systems):** CH-53K King Stallion Helicopter, Littoral Combat Ship, DDG 1000 Zumwalt Class Destroyer, P-8A Poseidon Multi-Mission Maritime Aircraft, Virginia-Class Submarine, H-1 Helicopter, E-2D Advanced Hawkeye Aircraft, AIM-9X Block II Sidewinder Missile.
- **Air Force (5 systems):** KC-46A Tanker Aircraft, F-22 Raptor Aircraft, Space Based Infrared System High, Global Positioning System III, F-15 Aircraft.
- **Joint Program, Air Force and Navy (1 system):** F-35 Joint Strike Fighter Aircraft.

⁹⁸DOD, Office of the Under Secretary of Defense (Comptroller), *Department of Defense Report on the Joint Committee Sequestration for Fiscal Year 2013* (June 2013). DOD's report summarizes, by account, the financial effect on its discretionary budget authority as a result of the President's March 1, 2013, sequestration order.

The 19 selected weapon systems accounted for about \$2.9 billion of the approximate \$15.8 billion sequestration reduction to DOD's RDT&E and procurement accounts.

For the military construction case study, we reviewed budget data presented in the June 2013 DOD report and identified five military construction accounts to which sequestration reductions were applied in fiscal year 2013. These accounts include those for the defense-wide agencies, the Army National Guard, Army Reserve, Navy, and Navy Reserve.⁹⁹ We then included within the scope of this case study all major military construction projects funded by those sequestered accounts, as reported in DOD's June 2013 report.

Data Collection and Analysis

To determine how DOD and the military services allocated fiscal year 2013 sequestration reductions, we reviewed data from the June 2013 DOD report to identify reductions applied to the operation and maintenance, RDT&E, procurement, and military construction accounts, including how reductions were applied within those accounts to fiscal year 2013 appropriated funds and to prior year unobligated balances still available from multi-year appropriations.¹⁰⁰ For the operation and maintenance accounts, we also reviewed data from DOD's operation and maintenance budget execution report for the fourth quarter of fiscal year 2013 to identify how reductions were allocated among the service

⁹⁹Accounts with fiscal year 2013 appropriated amounts below the baseline set by the Office of Management and Budget in accordance with the Balanced Budget and Deficit Control Act of 1985 (codified as amended in relevant part at 2 U.S.C. § 903(f)(2)) had their sequestration amounts reduced pro rata. In this case, because the military construction accounts of the active Army, the active Air Force, Air Force Reserve, and Air National Guard had appropriated amounts significantly lower than the baseline, no further reductions were made for those accounts, and we did not include them in our selection of military construction programs for review. The Marine Corps and Marine Corps Reserve do not receive military construction appropriations because funds are appropriated to the Department of the Navy for execution of Marine Corps projects.

¹⁰⁰Because many of DOD's appropriations are available for obligation for several fiscal years, DOD had significant balances from prior fiscal years still available for new obligations in fiscal year 2013. In part because these prior year unobligated balances were still available for new obligations, they were not exempt from sequestration. See 2 U.S.C. § 905(e). In this report when we refer to prior year unobligated balances, we are referring exclusively to prior year balances that were still available for new obligations, and not to budget authority that remained unobligated after its fixed period of availability had expired, and was no longer available for new obligations.

components' subactivity groups.¹⁰¹ We also utilized the 11 operation and maintenance categories that we developed to determine the amount of reductions applied within each category. Although the sequestrable base for each of the 11 operation and maintenance case study categories included both fiscal year 2013 enacted funding and any prior year unobligated balances, we did not include prior year unobligated balances in our analysis of sequestration data within those categories because operation and maintenance funding is generally available for obligation for one year only, and any unobligated balances within operation and maintenance accounts are relatively small. We assessed the reliability of sequestration data from the June 2013 DOD report and the DOD report on operation and maintenance budget execution by administering questionnaires and interviewing relevant personnel responsible for maintaining and overseeing the systems that supplied the data for these reports. Through these questionnaires and interviews, we obtained information on the systems' ability to record, track, and report on these data, as well as the quality control measures in place. We found the data on fiscal year 2013 sequestration reductions to be sufficiently reliable for the purposes of this review.

To determine what effects, if any, DOD has identified from the fiscal year 2013 sequestration on selected DOD programs and functions and military readiness, we examined relevant sequestration implementation guidance issued by DOD and the service components. For each of the three operation and maintenance case studies, we also reviewed DOD's fiscal year 2013 budget execution data, and for each of the five case studies we reviewed documentation of effects and mitigation strategies. We collected and reviewed available program-, project-, or activity-level data, other summaries, or reports that documented and quantified sequestration effects. These data and information included, for example, changes in aircraft flying hours and deployment schedules, deferment or cancellation of training or exercises, delays in the induction of equipment into depots or deferral of maintenance, project backlogs, contract delays, and reductions in the number of civilian personnel or contractors available to perform work, among other things. When examples of increased spending are discussed in this report, we provided the gross rather than net changes as reported to us by DOD officials in interviews and related

¹⁰¹DOD, *Operation and Maintenance Budget Execution Fourth Quarter Report for Fiscal Year 2013* (September, 2013).

documentation. In cases where the data on sequestration effects were provided through interviews with relevant officials, we corroborated them where possible through other sources, including service documents and reports. Where possible, we identified differences between planned and executed activities and interviewed relevant service component and acquisition program officials about the extent to which these differences could be tied to the effects of fiscal year 2013 sequestration reductions. In addition, we reviewed congressional testimonies by senior DOD and military service officials, briefings, and commanders' assessments prepared by the military services that presented evidence of any sequestration-related effects on the services' programs and functions and overall military readiness.

To determine the extent to which DOD took actions to mitigate the effect of the fiscal year 2013 sequestration, we reviewed information gathered within each of the five case study areas regarding mitigation efforts reported by DOD and the services, which included interviews with officials and other documentation. Further, we gathered documentation and interviewed DOD and service officials to identify any efforts taken to gather and apply lessons learned from their experiences implementing sequestration in fiscal year 2013 in response to a circular that was revised recently by the Office of Management and Budget.¹⁰²

We also analyzed data on the use of funding flexibilities and military construction project bid savings to understand how these options were used to address the effect of sequestration-related reductions.¹⁰³ Specifically, we reviewed data on the services' use of reprogrammings for fiscal years 2009 through 2014 to determine any trends, as well as interviewed DOD and service officials to discuss how reprogrammings were used to address the effects of sequestration in fiscal year 2013. For these purposes, we limited the scope of our data analysis to transfers and reprogrammings that require prior approval from congressional

¹⁰² Office of Management and Budget, Circular No. A-11, *Preparation, Submission, and Execution of the Budget*.

¹⁰³ Bid savings result when a military construction project ultimately costs less than the amount initially authorized and appropriated for the project. DOD uses the funds for a variety of purposes as part of its normal operations to address unforeseen construction costs, to satisfy emerging requirements, and to offset reductions and rescissions required by law, among others.

committees before they can be implemented.¹⁰⁴ We obtained the data on prior approval reprogrammings from reprogramming requests maintained on the website of the Office of the Under Secretary of Defense (Comptroller). We also obtained spreadsheets with data on reprogramming from that office and compared a nongeneralizable sample of randomly-selected data points between the two data sources to assess the reliability of the data. We found these data to be reliable for the purposes of reporting on DOD's reprogramming actions.

For determining sequestration mitigation efforts within the military construction case study, we also reviewed and analyzed data from the *Military Construction FY 2014 Fourth Quarter Bid Savings and Unobligated Balances Update*¹⁰⁵ and the *Military Construction FY 2015 First Quarter Bid Savings and Unobligated Balances Update* to assess changes in the amount of bid savings available to DOD components between fiscal years 2009 through 2014.¹⁰⁶ We corroborated these data with DOD component officials and discussed with them the extent to which bid savings helped offset sequestration reductions to military construction projects in fiscal year 2013, as well as the expected effect of the resulting changes in DOD's accumulation of bid savings on DOD's ability to respond to other current or future needs. In addition, we interviewed DOD officials responsible for updating and maintaining systems that track the bid savings data about the systems' ability to record, track, and report on these data, and the quality control measures in place to ensure that the data are reliable for reporting purposes. We found the bid savings data to be sufficiently reliable to demonstrate trends in the accumulated amount of bid savings among DOD's military construction accounts.

To further our understanding of DOD's allocation of fiscal year 2013 sequestration reductions and the extent to which those reductions

¹⁰⁴ DOD Financial Management Regulation 7000.14-R, Vol. 3, Ch. 6 (March 2011) requires that certain fund realignments be approved in advance by the congressional committees of jurisdiction. DOD requires prior approval for fund realignments for a variety of reasons, including changes in funding that exceed certain dollar thresholds or realignments that require the use of certain transfer authorities.

¹⁰⁵ DOD, Office of the Under Secretary of Defense (Comptroller), *Military Construction FY 2014 Fourth Quarter Bid Savings and Unobligated Balances Update*.

¹⁰⁶ DOD, Office of the Under Secretary of Defense (Comptroller), *Military Construction FY 2015 First Quarter Bid Savings and Unobligated Balances Update*.

affected selected case study areas or were mitigated by DOD efforts, we interviewed officials, or where appropriate, obtained documentation at the organizations listed below:

Office of the Secretary of Defense

- Office of the Under Secretary of Defense (Comptroller)
- Office of Cost Assessment and Program Evaluation
- Office of the Deputy Chief Management Officer

Joint Staff

- Manpower and Personnel Directorate
- Joint Force Development Directorate
- Force Structure, Resources, and Assessment Directorate
- F-35 Joint Strike Fighter program

Department of the Air Force

- Office of the Assistant Secretary of the Air Force, Financial Management and Comptroller
- Office of the Assistant Secretary of the Air Force, Installations, Environment and Logistics
- Air Force Civil Engineer Center
- Headquarters Air Force, Office of the Deputy Chief of Staff, Strategic Plans and Programs (A8)
- Headquarters Air Force, Studies and Analyses, Assessment, and Lessons Learned (A9)
- Headquarters Air Force, Office of the Deputy Chief of Staff, Operations, Plans and Requirements, Operations (A3O)
- Headquarters Air Force, Office of the Deputy Chief of Staff, Logistics, Installations and Mission Support, Security Forces (A47S)
- Headquarters Air Force, Office of the Deputy Chief of Staff, Logistics, Installations and Mission Support, Logistics (A4L)
- Pacific Air Forces
- Air Combat Command

- Air Education and Training Command
- Air Force Materiel Command
- Air Force Materiel Command, Air Force Life Cycle Management Center
- Air Force Space Command, Space and Missile Systems Center
- Air Force Reserve Command

Department of the Army

- Office of the Assistant Secretary of the Army for Financial Management and Comptroller, Army Budget
- Headquarters, Department of the Army, G-3/5/7 Operations and Plans
- Headquarters, Department of the Army, G-4 Office of the Deputy Chief of Staff for Logistics
- Office of the Assistant Chief of Staff for Installation Management
- U.S. Army Corps of Engineers
- U.S. Army Installation Management Command
- U.S. Army Forces Command
- U.S. Army Materiel Command
- U.S. Army Training and Doctrine Command, U.S. Army Combined Arms Center, Center for Army Lessons Learned
- U.S. Army Aviation and Missile Life Cycle Management Command
- U.S. Army Tank-Automotive and Armaments Command Life Cycle Management Command
- U.S. Army Communications-Electronics Command
- U.S. Army Reserve

Department of the Navy

- Assistant Secretary of the Navy, Financial Management and Comptroller
- Office of the Deputy Chief of Naval Operations (Fleet Readiness and Logistics), Fleet Readiness Division (N43)
- Strategic Systems Programs
- Office of the Deputy Chief of Naval Operations Warfare Systems (N9)

- U.S. Fleet Forces Command
- U.S. Pacific Fleet
- Naval Air Systems Command
- Naval Sea Systems Command
- Naval Supply Systems Command
- Space and Naval Warfare Systems Command
- Naval Facilities Engineering Command
- Commander, Navy Installations Command
- Navy Warfare Development Command
- Office of the Chief of Navy Reserve
- Navy Reserve Forces Command
- Headquarters Marine Corps, Programs and Resources
- Headquarters Marine Corps, Plans, Policies, and Operations
- Headquarters Marine Corps, Installations and Logistics, Logistics Policy and Capabilities Branch
- U.S. Marine Corps Forces Command
- U.S. Marine Corps Logistics Command
- U.S. Marine Corps Installations Command
- U.S. Marine Corps Training and Education Command, Marine Corps Center for Lessons Learned
- U.S. Marine Corps Forces Reserve

National Guard Bureau

- Air National Guard
- Army National Guard

We conducted this performance audit from April 2014 to May 2015 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.

Appendix III: Military Service Components' Operation and Maintenance Subactivity Groups, Organized by GAO-Identified Budget Categories, Fiscal Year 2013

Table 5 presents a list of the service components' unclassified operation and maintenance subactivity groups within the base operating support, operational tempo and training, and maintenance and weapon systems support budget categories we selected for our operation and maintenance case studies.¹⁰⁷ See appendix II for additional details regarding our selection of case studies and additional information regarding our scope and methodology.

Table 5: List of Active and Reserve Component Budget Subactivity Groups Categorized within Operation and Maintenance Budget Categories

Budget Category	Service Component	Subactivity Group Number and Name		
Base Operating Support	Army	131	Base Operations Support	
		132	Sustainment, Restoration, & Modernization	
	Navy	BSM1	Sustainment, Restoration, and Modernization	
		BSS1	Base Operating Support	
	Marine Corps	BSM1	Sustainment, Restoration, & Modernization	
		BSS1	Base Operating Support	
	Air Force	11R	Facilities Sustainment and Restoration/Modernization and Demolition	
			Base Support	
		21R	Facilities Sustainment and Restoration/Modernization and Demolition	
			Base Support	
		31R	Facilities Sustainment and Restoration/Modernization and Demolition	
			Base Support	
		41R	Facilities Sustainment and Restoration/Modernization and Demolition	
			Base Support	

¹⁰⁷As part of its budget justification materials, the Department of Defense (DOD) divides its services' operation and maintenance budget requests into four budget activities: (1) operating forces, (2) mobilization, (3) training and recruiting, and (4) administration and service-wide activities. DOD further divides its budget activities into various activity groups, then again into subactivity groups. The number and names of the activity and subactivity groups differ with each service. There are 258 unclassified subactivity groups in total across all services. The subactivity group level is the lowest level at which DOD's budget justification materials are organized within the operation and maintenance accounts. To identify case studies within the operation and maintenance accounts, we categorized all 258 of the active and reserve components' unclassified subactivity groups into 11 categories of activities, based on DOD's budget justification materials and in consultation with DOD officials.

**Appendix III: Military Service Components'
Operation and Maintenance Subactivity
Groups, Organized by GAO-Identified Budget
Categories, Fiscal Year 2013**

Budget Category	Service Component	Subactivity Group Number and Name		
	Army Reserve	131	Base Operations Support	
		132	Sustainment, Restoration, and Modernization	
	Navy Reserve	BSMR	Sustainment, Restoration, and Modernization	
		BSSR	Base Operating Support	
	Marine Corps Reserve	BSM1	Sustainment, Restoration, and Modernization	
		BSS1	Base Operating Support	
	Air Force Reserve	11R	Facilities Sustainment, Restoration, & Modernization	
		11Z	Base Support	
	Army National Guard	131	Base Operations Support	
		132	Facilities Sustainment, Restoration and Modernization	
	Air National Guard	11R	Facilities Sustainment, Restoration, and Modernization	
		11Z	Base Support	
	Operational Tempo and Training	Army	111	Maneuver Units
			112	Modular Support Brigades
113			Echelons Above Brigade	
114			Theater Level Assets	
115			Land Forces Operations Support	
116			Aviation Assets	
135			Additional Activities	
138			Combatant Commands Direct Mission Support	
Navy		1A1A	Mission and Other Flight Operations	
		1A2A	Fleet Air Training	
		1B1B	Mission & Other Ship Operations	
		1B2B	Ship Operational Support and Training	
		1C4C	Warfare Tactics	
		1CCM	Combatant Commanders Direct Mission Support	
Marine Corps		1A1A	Operational Forces	
Air Force		11A	Primary Combat Forces	
		11C	Combat Enhancement Forces	
		11D	Air Operations Training	
		15A	Combatant Commands Direct Mission Support	
Army Reserve		111	Maneuver Units	
		112	Modular Support Brigades	
		113	Echelons Above Brigade	
		114	Theater Level Assets	
		115	Land Forces Operations Support	
		116	Aviation Assets	

**Appendix III: Military Service Components'
Operation and Maintenance Subactivity
Groups, Organized by GAO-Identified Budget
Categories, Fiscal Year 2013**

Budget Category	Service Component	Subactivity Group Number and Name		
	Navy Reserve	1A1A	Mission and Other Flight Operations	
		1B1B	Mission and Other Ship Operations	
		1B2B	Ship Operational Support and Training	
	Marine Corps Reserve	1A1A	Operating Forces	
	Air Force Reserve	11A	Primary Combat Forces	
	Army National Guard	111	Maneuver Units	
		112	Modular Support Brigades	
		113	Echelons Above Brigade	
		114	Theater Level Assets	
		115	Land Forces Operations Support	
		116	Aviation Assets	
	Air National Guard	11F	Aircraft Operations	
Maintenance and Weapon Systems Support	Army	123	Land Forces Depot Maintenance	
		137	Reset	
	Navy	1A5A	Aircraft Depot Maintenance	
		1A6A	Aircraft Depot Operations Support	
		1B4B	Ship Maintenance	
		1B5B	Ship Depot Operations Support	
		1C7C	Equipment Maintenance	
		1C8C	Depot Operations Support	
		1C2C	Electronic Warfare	
		1D1D	Cruise Missile	
		1D2D	Fleet Ballistic Missile	
		1D3D	In-service Weapons Systems Support	
		1D4D	Weapons Maintenance	
		1D7D	Other Weapon Systems Support	
		4B6N	Combat/Weapons Systems	
		4B7N	Space and Electronic Warfare Systems	
		Marine Corps	1A3A	Depot Maintenance
		Air Force	13C	Space Control Systems
			11M	Depot Maintenance
			21M	Depot Maintenance
			32M	Depot Maintenance
			41M	Depot Maintenance
		Army Reserve	123	Depot Maintenance
		Navy Reserve	1A3A	Intermediate Maintenance
			1A5A	Aircraft Depot Maintenance
			1A6A	Aircraft Depot Operations Support
			1D4D	Weapons Maintenance
		1B4B	Ship Maintenance	

**Appendix III: Military Service Components'
Operation and Maintenance Subactivity
Groups, Organized by GAO-Identified Budget
Categories, Fiscal Year 2013**

Budget Category	Service Component	Subactivity Group Number and Name	
	Marine Corps Reserve	1A3A	Depot Maintenance
	Air Force Reserve	11M	Depot Maintenance
	Army National Guard	123	Land Forces Depot Maintenance
	Air National Guard	11M	Depot Maintenance

Source: GAO analysis of Department of Defense (DOD) budget documents. | GAO-15-470

Appendix IV: Comments from the Department of Defense



COMPTROLLER

UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

MAY 20 2015

Ms. Johana Ayers
Director, Defense Capabilities and Management
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Ms. Ayers:

Enclosed is the Department of Defense (DoD) response to the GAO Draft Report, GAO-15-470, 'SEQUESTRATION: Documenting and Assessing Lessons Learned Would Assist DoD in Planning for Future Uncertainty,' dated April 15, 2015 (GAO Code 351921).

Questions regarding this response may be directed to Mr. Paul White. He can be reached at (703) 695-0996, or paul.m.white8.civ@mail.mil.

Sincerely,

A handwritten signature in blue ink, appearing to read "Michael J. McCord".

Michael J. McCord

Enclosure:
As stated

GAO DRAFT REPORT DATED APRIL 15, 2015
GAO-15-470 (GAO CODE 351921)

“SEQUESTRATION: DOCUMENTING AND ASSESSING LESSONS LEARNED
WOULD ASSIST DOD IN PLANNING FOR FUTURE BUDGET UNCERTAINTY”

DEPARTMENT OF DEFENSE COMMENTS
TO THE GAO RECOMMENDATION

RECOMMENDATION 1: The GAO recommends that the Secretary of Defense direct the Under Secretary of Defense (Comptroller) and the secretaries of the military departments to document and assess lessons learned and best practices from implementing sequestration in fiscal year 2013. These lessons could include such practices as evaluating the interdependence of different types of funding sources to better understand how those can be synchronized to optimize capacity and minimize disruptions to training and readiness in the event of future budgetary constraints.

DoD RESPONSE: DoD concurs with the recommendation. The Under Secretary of Defense (Comptroller) will work with the military departments and develop a repository of lessons learned and best practices garnered from implementing sequestration in 2013. We anticipate this being completed by December 31, 2015.

RECOMMENDATION 2: The GAO recommends that the Secretary of Defense direct the Under Secretary of Defense (Comptroller) and the secretaries of the military departments to leverage existing information sharing mechanisms to make these lessons learned and best practices available to decision makers within the services and across the department.

DoD RESPONSE: DoD concurs with the recommendation. The Under Secretary of Defense will develop a web portal to house the above-mentioned lessons learned and best practices. DoD organizations will be able to access this portal to aid their decision-making in the event they need to implement sequestration-related budget cuts. We anticipate this being completed by December 31, 2015.

Appendix V: GAO Contacts and Staff Acknowledgments

GAO Contacts

Johana R. Ayers, (202) 512-5741 or ayersj@gao.gov; Michael J. Sullivan, (202) 512-4841 or sullivanm@gao.gov.

Staff Acknowledgments

In addition to the contacts named above, Matt Ullengren (Assistant Director); Bruce Thomas (Assistant Director); Clarine Allen; Natalya Barden; Melissa Blanco; Bruce Brown; Pat Donahue, Marcus Ferguson; Dayna Foster; Amber Gray; Jeffrey Harner; Sameena Ismailjee; Amie Lesser; Jonathan Mulcare; Bonita Oden; Meghan Perez; Carol Petersen; Steve Pruitt; Daniel Purdy; Kiran Sreepada; Shana Wallace; Erik Wilkins-McKee; and Michael Willems made key contributions to this report.

Related GAO Products

2013 Government Shutdown: Three Departments Reported Varying Degrees of Impacts on Operations, Grants, and Contracts.

[GAO-15-86](#). Washington, D.C.: October 15, 2014.

Sequestration: Comprehensive and Updated Cost Savings Would Better Inform DOD Decision Makers If Future Civilian Furloughs Occur.

[GAO-14-529](#). Washington, D.C.: June 17, 2014.

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[GAO-14-244](#). Washington, D.C.: March 6, 2014.

Sequestration: Observations on the Department of Defense's Approach in Fiscal Year 2013. [GAO-14-177R](#). Washington, D.C.: November 7, 2013.

March 1 Joint Committee Sequestration for Fiscal Year 2013, [B-324723](#)
Washington, D.C.: July 31, 2013.

Agency Operations: Agencies Must Continue to Comply with Fiscal Laws Despite the Possibility of Sequestration. [GAO-12-675T](#). Washington, D.C.: April 25, 2012.

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