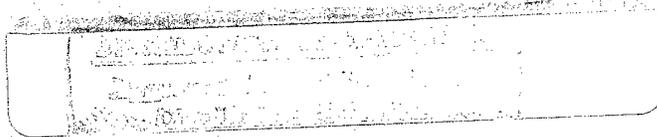


July 1997

BOSNIA

Cost Estimating Has
Improved, but
Operational Changes
Will Affect Current
Estimates

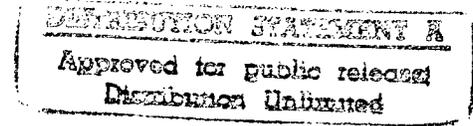


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National Security and
International Affairs Division

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July 28, 1997



Congressional Committees

The Department of Defense (DOD) has about 10,500 troops deployed to Bosnia and Herzegovina (hereafter referred to as Bosnia) and surrounding countries as of July 1997 to assist in implementing the Dayton Peace Agreement. U.S. forces are part of a multilateral coalition under North Atlantic Treaty Organization (NATO) command called the Stabilization Force, a follow-on mission to the original NATO Implementation Force. DOD estimates that the incremental costs of its participation in these NATO coalition forces will be about \$6.5 billion for fiscal years 1996-98.¹ We previously reported on DOD's estimated costs for U.S. participation in the Implementation Force and the reasons why costs were higher than originally estimated.² Because of Congress' continued interest in this matter, we (1) reviewed DOD's process for estimating the costs of contingency operations to determine whether the process has been improved since our prior reviews and (2) determined the basis for the fiscal years 1997-98 cost estimates and the impact operational changes could have on these estimates. Because of your expressed interest in and responsibilities to oversee the costs of these operations, we are addressing the report to you.

Results in Brief

DOD has improved its process for estimating costs of contingency operations by requiring that cost estimates be a part of the decision-making process in undertaking any new operation or changing an ongoing one. It also created a high-level committee to review cost estimates. Quarterly reviews of estimates for ongoing operations allow DOD to react to changes in costs.

DOD based its cost estimates for Bosnia operations for fiscal years 1997 and 1998 on its fiscal year 1996 experience and operational decisions known at the time. DOD appears to have used a logical process to develop these estimates. However, operational changes have had and continue to have significant impacts on the costs. NATO's decision to extend the operation beyond December 1996 increased the fiscal year 1997 cost

¹In this report, "incremental costs" means those costs that would not have been incurred if not for the operation. This same definition is contained in 10 U.S.C. 127a, as amended by the National Defense Authorization Act for Fiscal Year 1996.

²Bosnia: Costs Are Exceeding DOD's Estimate (GAO/NSIAD-96-204BR, July 25, 1996) and Bosnia: Costs Are Uncertain but Seem Likely to Exceed DOD's Estimate (GAO/NSIAD-96-120BR, Mar. 14, 1996).

estimate by over \$1.8 billion. Recent operational decisions will increase the cost estimate for fiscal year 1998. Other decisions, such as changes in the size and composition of the force and the timing of withdrawal, could further increase the cost estimate for fiscal year 1998.

Background

The Dayton Peace Agreement, signed on December 14, 1995, was designed to end 4 years of conflict in the former Yugoslavia. In part, the agreement involved the deployment of a NATO-led coalition force to Bosnia to implement the peace plan. The Implementation Force was to enforce the cessation of hostilities and provide a secure environment so that other parts of the peace plan could take place.

Although the Implementation Force's mission ended in December 1996, NATO authorized a new force and mission for an 18-month period to end in June 1998. The Stabilization Force recognizes the need for a continued international military force to deter renewed hostilities and stabilize and consolidate peace in Bosnia. As with the Implementation Force, the United States is the major force provider, and Americans occupy the key military positions that control the operation. As of July 6, 1997, approximately 10,500 U.S. active and reserve personnel were deployed to 4 countries in support of the Stabilization Force. Of this total number, 7,900 military personnel were deployed to Bosnia, 500 to Croatia, and 2,100 to Hungary and Italy. We recently issued a report on the progress in achieving the goals of the Dayton Peace Agreement and testified before the Senate Subcommittee on European Affairs, Committee on Foreign Relations on this.³

DOD's incremental costs for fiscal year 1996 for operations in and around Bosnia totaled about \$2.5 billion for both operation and maintenance and military personnel costs. To pay for fiscal year 1996 costs, Congress approved DOD's transfer of about \$2.3 billion from other previously appropriated sources. The services absorbed the difference within their operation and maintenance accounts.

In anticipation that operations would end in December 1996, DOD requested \$542 million in operation and maintenance and military personnel funding for Bosnia operations as part of its fiscal year 1997 budget. Of the \$1.3 billion Congress appropriated for contingency operations for fiscal year 1997, DOD budgeted \$677 million for operations in

³Bosnia Peace Operation: Progress Toward Achieving the Dayton Agreement's Goals (GAO/NSIAD-97-132, May 5, 1997) and Bosnia Peace Operation: Progress Toward the Dayton Agreement's Goals—An Update (GAO/T-NSIAD-97-216, July 17, 1997).

Bosnia. Subsequently, NATO extended operations, and DOD submitted a funding request for over \$2 billion for contingency operations, which included over \$1.8 billion more for fiscal year 1997 Bosnia operations. Congress has since appropriated about \$1.8 billion for contingency operations, of which DOD plans to use about \$1.2 billion for Bosnia. DOD's fiscal year 1998 budget request includes almost \$1.5 billion for Bosnia operations.

DOD has recognized deficiencies in its process for developing cost estimates for large-scale peacekeeping and other major contingency operations. While DOD believes the current process worked fairly well for operations in Somalia and Haiti, it believes that the process failed to provide reasonable estimates for Bosnia. In our past reports, we have reported that operational changes and unexpected events can have a significant impact on the cost estimates for contingency operations.

DOD Has Improved the Process for Estimating Costs of Contingency Operations

Cost growth in the ongoing Bosnia operation focused the attention of senior DOD leadership on the need to improve management of contingency operation costs. Therefore, the Comptroller has taken steps to improve the process for developing and reviewing cost estimates. Also, the newly created Overseas Contingency Operations Transfer Fund, which provides funding to DOD rather than directly to the individual military services, allows DOD to manage the funding of contingency operations among the military services more effectively and with some flexibility.

In January 1997, the Principal Deputy Comptroller established a contingency operations cost estimating team for joint operations. The team, which consists of a logistics and a financial management expert from each of the services and the Joint Staff, is expected to meet when senior management requires a preliminary cost estimate for a major contingency operation. In addition, the Chairman of the Joint Chiefs of Staff directed that the joint staff develop a cost estimate to accompany every deployment order for new operations or changes to ongoing operations so that the official approving the order would be aware of the costs.

In January 1997, the Comptroller also established a steering committee to review contingency operation cost estimates. This committee is chaired by the Principal Deputy Comptroller and includes senior representatives from the Office of the Under Secretary of Defense (Policy), the Joint Staff, and the military services. The committee's purpose is to (1) oversee the

implementation of changes in the way DOD develops, assesses, communicates, and reacts to cost requirements associated with large-scale peacekeeping and other major contingency operations and (2) provide ongoing reviews and assessments of all contingency operation cost estimates to support DOD decision processes and aid senior leaders in tracking and controlling costs more effectively.

In January 1997, the Comptroller directed that the military services, the Special Operations Command, and the defense agencies report quarterly on the most current estimate of their contingency costs. The Comptroller is to provide this quarterly update to the Senior Readiness Oversight Council, which makes recommendations to the Secretary of Defense on readiness matters. The Council can then track and control contingency costs more effectively to avoid situations such as that which occurred in the fall of 1994, when the readiness of several units fell due to cash flow problems resulting from the need to finance contingency operations.

In the DOD Appropriations Act of 1997 (P.L. 104-208), Congress established the Overseas Contingency Operations Transfer Fund to pay for ongoing contingency operations. Congress appropriates money to the Fund. As an operation unfolds during the year, DOD can transfer money directly from the Fund to the military services' operation and maintenance accounts. DOD is required to show the amounts transferred and the requirements funded in a quarterly report to the defense subcommittees of the House and Senate Appropriations Committees. According to an official from the Office of the Under Secretary of Defense (Comptroller), the Fund allows DOD to exercise flexibility in paying for operations in a timely and direct way.

A Logical Process Was Used to Develop Cost Estimates for Fiscal Years 1997 and 1998

DOD applied the actual cost data from the first year of the Bosnia operation to anticipated operational conditions to develop revised cost estimates for fiscal year 1997 and estimates for fiscal year 1998. DOD revised the original fiscal year 1997 estimate based on operational changes made after the beginning of the fiscal year. The cost estimate that supported the funding request included in the President's fiscal year 1998 budget was based on a specific U.S. force size and drawdown plan. NATO has not yet agreed to this plan.⁴

⁴NATO has agreed to review the mission at the 6- and 12-month marks. NATO intends to reduce force levels, at an unspecified date, to a deterrence-sized force, commensurate with the security situation, to facilitate NATO's departure from Bosnia in June 1998. The first review was held on June 26-27, 1997.

The original fiscal year 1997 cost estimate for the operation was about \$600 million. The estimate included funding for continued operations through December 1996, redeployment of U.S. troops and reserve component deactivation, and reconstitution of equipment used in the operation. At the time the fiscal year 1997 budget was submitted in March 1996, DOD had preliminary cost data to use in developing the fiscal year 1997 estimate; however, the data were not extensive, given that the operation had begun in December 1995.

In November 1996, NATO decided that the original mission would end as scheduled and that a follow-on force would stay until June 1998. At that point, DOD and the military services had several months of actual cost data with which to develop an estimate for the rest of fiscal year 1997. The cost of the logistics contract for sustaining the troops was stable at about \$20 million a month. An 8,500-troop strength and force structure were planned through the end of the fiscal year, and actual data on operating tempos, such as average tank miles used, could be used to calculate the estimate. DOD also included in its estimate the costs of rotating the troops at some point during the fiscal year.

Given the information available, DOD increased the cost estimate by over \$1.8 billion for a total estimate of about \$2.5 billion for the fiscal year. In March 1997, DOD requested the \$1.8-billion increase as part of a supplemental funding request to Congress. However, as new information became available, DOD reduced the request for Bosnia operations by about \$160 million. This reduced request reflects a decrease in estimates of \$20 million for military personnel costs. According to an Army official, it also reflects a savings of \$140 million from the extension of the logistics support contractor in Bosnia, reevaluation of support requirements, and implementation of better management controls over the logistics contract. Based on actual cost data available through the end of April 1997, it appears that the total actual costs for fiscal year 1997 might be less than the estimate.

The almost \$1.5-billion estimate for fiscal year 1998 was based on a planned strength of about 5,000 troops in Bosnia on October 1, 1997, and withdrawal of them by June 1998. The force structure and operating tempo were planned through the end of June 1998. The estimate also included the costs for a deliberate, land-based withdrawal; deactivation of reserve component troops; and reconstitution of equipment. As with the fiscal year 1997 estimate, DOD had several months of actual cost data to use in developing the estimate.

Operational Changes Continue to Have Significant Impacts on Costs

The decision to extend the operation from December 1996 to June 1998 required DOD to increase the fiscal year 1997 cost estimate and create a fiscal year 1998 cost estimate. Recent operational decisions and the pending decision on a new time frame for the drawdown to 5,000 troops will increase the cost estimate for fiscal year 1998 by a maximum of about \$161 million. Other future decisions could further increase the cost estimate for fiscal year 1998.

NATO recently announced that it has authorized an increase to the force level that will be required to enforce the peace agreement during the municipal elections. NATO anticipated these elections would be held in the spring of 1997, but they have now been rescheduled for mid-September 1997. To accomplish this increase, U.S. European Command officials have approved a plan that would retain the troops now in the area and accelerate deployment of troops planned to replace the current force so that both forces would overlap before, during, and after the election to handle any problems that may arise.

The fiscal year 1997 cost estimate was developed with the assumption that the troop rotation would occur at the end of fiscal year 1997. If the change is approved, rotational costs would instead be incurred in fiscal year 1998; however, higher sustainment costs incurred for the higher troop strength during fiscal year 1997 would offset the savings from the delayed rotation. The estimate also assumed that a 5,000-troop level would be in place by October 1, 1997, which DOD is still anticipating. However, the date for the drawdown has not yet been set. Overall, DOD estimates that fiscal year 1998 costs could increase by a maximum of about \$161 million from the buildup surrounding the elections and a worst-case scenario of maintaining an 8,500-troop strength through June 1998.

Other pending decisions could increase the cost estimate for fiscal year 1998. For example, the parties to the Dayton Peace Agreement were unable to agree on which of Bosnia's ethnic groups would control the strategically important area in and around the city of Brcko. This area is vitally important to two of Bosnia's three major ethnic groups. The agreement called for an arbitration tribunal to decide this issue by December 14, 1996. After a 2-month extension, the tribunal decided that a designated supervisor would establish an interim administration for the Brcko area. This administration started on April 11, 1997, and is to operate for at least 1 year. However, if requested, the tribunal may make a further decision on the status of the area by March 15, 1998. According to observers, awarding control of the area to either of the two ethnic groups

could lead to civil unrest and possible renewal of the conflict. According to U.S. Army Europe and U.S. European Command officials, if this conflict restarted, it could prevent the planned reduction from 8,500 to 5,000 troops and lead to higher sustainment costs.

In another example, redeployment plans currently call for a deliberate, land-based withdrawal of troops and equipment to the staging base in Hungary. To accomplish this withdrawal, decisions need to be made early enough to schedule bridge crossings and rail transportation, instead of the more expensive airlift that was used extensively during the original deployment. If decisions leading to the redeployment are delayed, and the June 1998 time frame for withdrawal from Bosnia is firmly enforced, the withdrawal would require a greater reliance on airlift, which would increase the cost for redeployment.

The redeployment plans also call for the use of U.S. troops, instead of the logistics contractor, to tear down the base camps and clean up and dispose of excess material. If the contractor is used for these tasks, however, the fiscal year 1998 costs might increase, since there is no amount currently included in the estimate for the contractor to perform these tasks. According to an Army official, the Army is currently studying this issue to see whether it is more cost-effective to use the contractor to perform these tasks.

Although there are no indications that these circumstances will occur, the current security situation could change, requiring further changes to the operational plans. For example, as we reported in May 1997, some State and Defense Department officials believed, based on current conditions, some type of international military force will likely be required after the Stabilization Force's mission ends. If there is a follow-on force and the U.S. participates, plans will change and cost estimates will increase. However, according to an official from the Office of the Under Secretary of Defense (Comptroller), it would also be reasonable to expect that other operational changes during the year could lead to savings.

Scope and Methodology

To determine whether DOD's process for estimating costs of contingency operations has improved, we reviewed documents and discussed changes in policy and procedures with officials at the Office of the Under Secretary of Defense (Comptroller) and the military services.

To determine how DOD and the military services developed their fiscal years 1997 and 1998 budget estimates and what impact operational changes could have on these estimates, we discussed the assumptions used with Comptroller and service officials. We reviewed DOD's appropriations for fiscal year 1997, the President's fiscal year 1998 budget, and DOD's fiscal year 1997 request for supplemental funding for military operations. We also held discussions and reviewed data at the Air Mobility Command; the U.S. European Command; U.S. Army Europe; 21st Theater Army Area Command; U.S. Air Forces, Europe; the Air Force's Air Combat Command; and the Navy's Commander in Chief, Atlantic Fleet.

We performed our review from February to June 1997 in accordance with generally accepted government auditing standards. We reviewed the information in this report with DOD officials and made changes where appropriate. DOD officials generally concurred with our findings.

We are providing copies of this report to appropriate Senate and House Committees; the Secretaries of Defense, the Air Force, the Army, and the Navy; and the Director, Office of Management and Budget. Copies will also be made available to others on request.

If you have any questions about this report, please contact me at (202) 512-3504. Major contributors to this report are Robert Pelletier, Ann Borseth, and John Wiethop.



Richard Davis
Director, National Security
Analysis

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