

A *udit*



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EQUIPMENT PROCUREMENT FOR THE NATIONAL GUARD
AND RESERVE FORCES

Report No. D-2001-047

February 7, 2001

Office of the Inspector General
Department of Defense

Form SF298 Citation Data

Report Date <i>("DD MON YYYY")</i> 07Feb2001	Report Type N/A	Dates Covered (from... to) <i>("DD MON YYYY")</i>
Title and Subtitle Equipment Procurement for the National Guard and Reserve Forces	Contract or Grant Number	
Authors	Program Element Number	
Performing Organization Name(s) and Address(es) OAIG-AUD (ATTN: AFTS Audit Suggestions) Inspector General, Department of Defense 400 Army Navy Drive (Room 801) Arlington, VA 22202-2884	Project Number	
Sponsoring/Monitoring Agency Name(s) and Address(es)	Task Number	
Distribution/Availability Statement Approved for public release, distribution unlimited	Work Unit Number	
Supplementary Notes	Performing Organization Number(s) D-2001-047	
Abstract The Deputy Assistant Secretary of Defense for Reserve Affairs (Materiel and Facilities) requested an audit to determine whether the funds that Congress appropriated to the Reserve Components from FY 1996 through FY 2000 were being used as intended. This report addresses that request. Equipment procurements for the Reserve Components are funded either in the procurement appropriations of the Military Departments or in a separate National Guard and Reserve Equipment Appropriation. The Procurement Programs-Reserve Components exhibit is submitted with the biennial budget submission and is part of the Procurement Program's congressional budget justification package. The Procurement Programs-Reserve Components exhibit reflects the Active Component's estimate for those funds that will be used to procure and modify equipment for the Reserve Components. The Procurement Programs-Reserve Components exhibit also includes the projected quantities of new procurement items for the Reserve Component out of the Active Components Procurement Appropriations. Appropriated amounts for equipment procurement for the Reserve Components from FY 1996 through FY 2000 totaled \$7.6 billion for 125 systems. We reviewed \$4 billion representing 31 systems.	Monitoring Agency Acronym	
Subject Terms	Monitoring Agency Report Number(s)	

Document Classification unclassified	Classification of SF298 unclassified
Classification of Abstract unclassified	Limitation of Abstract unlimited
Number of Pages 16	

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Acronyms

ARNG	Army National Guard
NGREA	National Guard and Reserve Equipment Appropriation
P-1R	Procurement Programs-Reserve Components procurement document
USAR	United States Army Reserve



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

February 7, 2001

MEMORANDUM FOR DEPUTY ASSISTANT SECRETARY OF DEFENSE FOR
RESERVE AFFAIRS (MATERIEL AND FACILITIES)

SUBJECT: Audit Report on Equipment Procurement for the National Guard and
Reserve Forces (Report No. D-2001-047)

We are providing this report for information and use. The audit was performed in response to your office's request. The written response from your office is included in the final report.

Comments on the draft of this report conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are required.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Mr. Raymond A. Spencer at (703) 604-9071 (DSN 664-9071) (rspencer@dodig.osd.mil) or Mr. Michael E. Simpson at (703) 604-8972 (DSN 664-8972) (msimpson@dodig.osd.mil). See Appendix C for the report distribution. Audit team members are listed inside the back cover.

David K. Steensma

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Office of the Inspector General, DoD

Report No. D-2001-047
(Project No. D2000AB-0232)

February 7, 2001

Equipment Procurement for the National Guard and Reserve Forces

Executive Summary

Introduction. The Deputy Assistant Secretary of Defense for Reserve Affairs (Materiel and Facilities) requested an audit to determine whether the funds that Congress appropriated to the Reserve Components from FY 1996 through FY 2000 were being used as intended. This report addresses that request.

Equipment procurements for the Reserve Components are funded either in the procurement appropriations of the Military Departments or in a separate National Guard and Reserve Equipment Appropriation. The Procurement Programs-Reserve Components exhibit is submitted with the biennial budget submission and is part of the Procurement Program's congressional budget justification package. The Procurement Programs-Reserve Components exhibit reflects the Active Component's estimate for those funds that will be used to procure and modify equipment for the Reserve Components. The Procurement Programs-Reserve Components exhibit also includes the projected quantities of new procurement items for the Reserve Component out of the Active Components' Procurement Appropriations. Appropriated amounts for equipment procurement for the Reserve Components from FY 1996 through FY 2000 totaled \$7.6 billion for 125 systems. We reviewed \$4 billion representing 31 systems.

Objectives. Our overall audit objective was to determine the use of funds budgeted for Reserve Component procurement. Specifically, the audit determined whether the funds appropriated to the Active Components to procure equipment for their Reserve Components were used for that purpose and whether the equipment was delivered in accordance with approved acquisition plans.

Results. Funds earmarked in budget justification exhibits for procurement for the Reserve Components were generally used for that purpose. For 29 systems, \$3.6 billion was expended from FY 1996 through FY 2000 to support Reserve Components. For the remaining two systems, \$328 million in funds was used to support the Active Forces because of revised priorities. However, for the two systems, the requirements simply were deferred to a future period with reasonable expectations of funds being available at that time. The Army had legal authority to make those adjustments.

Management Comments. We provided a draft of this report on November 24, 2000. Although no written comments were required, the Acting Assistant Secretary of Defense (Reserve Affairs) stated that our assertion that the Services are complying with the programmed and planned equipment support of the National Guard and Reserve Components is most helpful. However, the Assistant Secretary found it troubling that the Services' had difficulty in providing execution data for the Reserve Component procurements in the Active Component accounts. In addition, the Assistant Secretary stated that when the Congress appropriates funds in the President's budget for

equipment and modifications for the National Guard and Reserve Components, it is the Services' responsibility to ensure that the equipment gets to the intended user. The Assistant Secretary further stated that his office would continue to work with the Services to ensure that an account of execution, expenditures, and deliveries of Reserve Component equipment is readily available. Also, his office will closely monitor the Services execution of the Reserve Component equipping programs.

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Background

The Deputy Assistant Secretary of Defense for Reserve Affairs (Materiel and Facilities) requested an audit to determine whether the funds that Congress appropriated to the Reserve Components from FY 1996 through FY 2000 were used as intended.

The Reserve Components receive new equipment through the National Guard Reserve Equipment Appropriation and by procurements identified in Active procurement accounts of the Services. Amounts appropriated in the former accounts from FYs 1996 through 2000 totaled \$7.6 billion, which represented funding for 125 systems. The Procurement Programs-Reserve Components budget justification exhibit (P-1R) is submitted with the biennial budget submission and is part of the Procurement Programs justification package. The P-1R identifies both item quantities and estimated costs for equipment programmed to be procured and modified for the Reserve Components.

The P-1R is an extract from the official financial database that provides Service summaries and all procurement line item breakouts for each Reserve Component. The P-1R addresses five appropriations for each Reserve Component. The appropriations are Aircraft Procurement, Missile Procurement, Procurement of Weapons and Tracked Combat Vehicles, Procurement of Ammunition, and Other Procurement.

Objectives

The overall audit objective was to determine the use of funds budgeted for Reserve Component procurement. Specifically, the audit determined whether the funds appropriated to procure equipment for the National Guard and Reserve Forces in the Military Department procurement accounts were used for that purpose and whether the equipment was delivered in accordance with approved acquisition plans. We did not review specific equipment purchases funded in the National Guard and Reserve Equipment Appropriation.

Procurement and Modification of Equipment for Reserve Components

Funds earmarked in budget justification exhibits for procurement for the Reserve Components were generally used for that purpose. For 29 systems, \$3.6 billion was expended from FY 1996 through FY 2000 to support Reserve Components. For the remaining two systems, \$328 million in funds was used to support the Active Forces because of revised priorities. However, for the two systems, the requirements simply were deferred to a future period with reasonable expectations of funds being available at that time. The Army had legal authority to make those adjustments.

Army National Guard Systems

We reviewed 14 systems planned for delivery to the Army National Guard (ARNG) and Army Reserve (USAR) Components from FY 1996 through FY 2000. We selected those systems because they are major dollar items and represent a large percentage of each of the procurement sub-appropriations.

Army Aircraft Procurement. The ARNG received 41 UH-60 Black Hawk helicopters totaling \$385 million programmed from FY 1996 through FY 2000.

Because of priority changes within the Active Component, the funds for the delivery of Kiowa helicopters to the ARNG were moved to FY 2003. The Kiowa helicopters were originally estimated for delivery from FY 1996 through FY 1998 at a cost of \$272 million.

Missile Procurement. The ARNG received the Avenger Air Defense System equipment costing \$69 million, as scheduled, from FY 1999 through FY 2000. Avenger systems purchased in FY 1997 for \$56 million that were originally projected to be distributed to the ARNG were instead sent to the Active Component of the Army because of priority changes. ARNG officials advised us that the funds, which were originally program for use in FY 1997, were moved to FY 2006.

The ARNG received the Multiple Launch Rocket System and associated ancillary equipment as scheduled for FY 1997, FY 1999, and FY 2000 for a total of \$116 million.

Weapons and Tracked Combat Vehicles. The Field Artillery Ammunition Support Vehicle and the Paladin were listed in the P-1R as two separate line items, but the systems have always been fielded together. The ARNG provided documentation that showed both systems for FY 1997 and FY 1998 were received at a cost of \$291.8 million.

In FY 1998, a total of \$83 million was appropriated for the Bradley. The ARNG provided documentation that those funds were being used to upgrade the Bradley at a cost of approximately \$1.25 million for each vehicle. The funds were used to upgrade two battalions in South Carolina and North Carolina.

Other Procurements--Tactical and Support Vehicles. The ARNG received 738 of 857 Heavy Equipment Transporter System, Palletized Load System, and Heavy Expanded Mobility Tactical Trucks that were scheduled for delivery. The P-1R showed that 345 vehicles were to be purchased in FY 1999, and 512 vehicles were to be purchased in FY 2000, for a total of \$177.5 million. The ARNG received 245 vehicles in FY 1998 and 493 vehicles in FY 1999 through FY 2000, with the remaining 119 scheduled for delivery in FY 2001.

In FY 1999, 305 Truck, Tractor, and Line Haul (M915) systems were scheduled for delivery costing \$41 million, and in FY 2000, 61 were scheduled for delivery at a cost of \$8.9 million. The ARNG representative advised us that because of delays in testing, deliveries were later than projected. Production began in September 2000 and deliveries are scheduled for FY 2001.

Communications and Electronics Equipment. The ARNG received 29,636 Single Channel Ground-Air Radio Systems as projected from FY 1996 through FY 2000 costing \$273.4 million.

A total of \$298 million from FY 1996 through FY 2000 was spent for the Reserve Component Automation System. The \$298 million included \$177 million for hardware and \$121 million for software and related services.

A total of \$109.3 million was spent for 54 Sentinel radar systems from FY 1996 through FY 2000.

Army Reserve Systems

We reviewed five USAR systems. The total funding for the five systems was \$333 million from FY 1996 through FY 2000.

A total of \$104 million was spent for 11,346 Single Channel Ground-Air Radio Systems programmed for FY 1996 and FY 1997.

A total of \$158 million was spent for the Reserve Component Automation System.

In addition, \$41 million was spent in FY 2000 for 283 Truck, Tractor, and Line Haul (M915) systems. No trucks were delivered in FY 2000 because of delays in testing and deliveries are scheduled for FY 2001.

In FY 1999, \$13.8 million was spent for 48 Truck, Palletized Load Systems. The USAR received 37 vehicles in FY 2000 and the remaining 11 were scheduled for delivery in FY 2001.

In FY 2000, \$16 million was spent for 24 Heavy Equipment Transporter Systems. The trucks were delivered in the last quarter of FY 2000 and early FY 2001.

Navy and Marine Corps Reserves

The Navy spent \$12 million in FY 1996, \$12 million in FY 1997, \$56 million in FY 1998, \$42 million in FY 1999, and \$86 million in FY 2000 for Naval Reserve equipment. Those funds were for aircraft procurement and modifications and miscellaneous systems procurement. Naval Reserve officials provided documentation showing that the procurements and modifications had been completed.

The Marine Corps spent \$59 million in FY 1996, \$30 million in FY 1997, \$26 million in 1998, \$39 million in FY 1999 and \$57 million in FY 2000 for Marine Corps Reserve equipment. Marine Corps Reserve officials provided documentation showing that all procurements were made or would be delivered with the funding.

Air Force Reserve and Air National Guard Aircraft Modifications

We reviewed the aircraft procurement appropriations for six selected air systems and system modifications for the Air Force Reserve and Air National Guard from FY 1996 through FY 2000. Air Force Reserve and Air National Guard officials provided documentation showing that the funds were sent to the program managers and the modifications were completed. The aircraft systems and the amount of funding for the Air Force Reserve were the A-10 (\$23.3 million), F-16 (\$43.9 million), C-5 (\$93.7 million), C-141 (\$154.5 million), C-130 (\$109 million), and C-135 (\$144.7 million).

The aircraft systems and the amount of funding for the Air National Guard were the A-10 (\$47.1 million), F-16 (\$217.9 million), C-5 (\$35.8 million), C-141 (\$63.1 million), C-130 (\$175.7 million), and C-135 (\$346.9 million).

Management Flexibility

Quantities shown in the P-1R exhibit for each year of the procurement do not necessarily reflect how those quantities will be distributed. Fiscal resources, programmatic, and priority changes subsequent to the published date of the exhibit may ultimately revise some of the projections in the P-1R. The Services have the legal authority to make such adjustments to delivery sequences.

Summary

For 29 systems reviewed, we determined that \$3.6 billion was expended in support of Reserve Components from FY 1996 through FY 2000. The Army reprioritized \$328 million, originally programmed for the ARNG for Kiowa Warrior helicopters and Avenger Systems in FY 1996 through FY 2000, to the Active component. The Army now plans to provide this equipment to the ARNG in the FY 2003 to FY 2006 timeframe.

Appendix A. Audit Process

Scope and Methodology

Work Performed. We reviewed the Active Component Procurement Appropriation from the P-1R documents from FY 1996 through FY 2000 to ensure that equipment was provided to the National Guard and Reserve Forces. We reviewed the funds distribution process from the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics to the final uses of the funds at the specific program offices. We reviewed documents and guidance that were pertinent to the fielding or transfer of equipment. We interviewed military and civilian personnel from the different Services. We also interviewed cognizant personnel within various offices of the Secretary of Defense.

Limitations to Audit Scope. We did not visit any Reserve Component units.

DoD-Wide Corporate Level Government Performance and Results Act Coverage. In response to the Government Performance and Results Act, the Secretary of Defense annually establishes DoD-wide corporate level goals, subordinate performance goals, and performance measures. This report pertains to achievement of the following goal, subordinate performance goal, and performance measure.

FY 2001 DoD Corporate Level Goal 2: Prepare now for an uncertain future by pursuing a focused modernization effort that maintains U.S. qualitative superiority in key warfighting capabilities. Transform the force by exploiting the Revolution in Military Affairs, and reengineer the Department to achieve a 21st century infrastructure. **(01-DoD-2) FY 2001 Subordinate Performance Goal 2.2:** Transform U.S. military forces for the future. **(01-DoD-2.2) FY 2001 Performance Measure 2.2.1:** Annual Procurement Spending **(01-DoD-2.2.1).**

DoD Functional Area Reform Goals. DoD did not establish performance improvement reform objectives and goals for this functional area.

High-Risk Area. The General Accounting Office has identified several high-risk areas in DoD. This report provides indirect coverage of the Defense Weapons System Acquisition high-risk area.

Use of Computer-Processed Data. We did not use computer-processed data to perform this audit.

Audit Type, Dates, and Standards. This economy and efficiency audit was performed from July 2000 through October 2000 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. Accordingly, we included tests of management controls considered necessary.

Contacts During the Audit. We visited or contacted individuals and organizations within DoD. Further details are available on request.

Management Control Program Review

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996, require DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of the Review of the Management Control Program. We evaluated the management control process to determine whether equipment was effectively being provided to the National Guard and Reserve. We analyzed and compared each Service's funding process to determine whether one was more effective than another. However, we could not obtain data concerning expenditures from the Service headquarters. This data was received from the various item managers and program offices.

Adequacy of Management Controls. Reserve Components' management controls were adequate in that we identified no material management control weaknesses.

Prior Coverage

During the last 5 years, the Inspector General, DoD, has issued two reports discussing procurement for the National Guard and Reserves. Unrestricted Inspector General, DoD, reports can be accessed at <http://www.dodig.osd.mil/audit/reports>.

Inspector General, DoD

Inspector General, DoD, Report No. D-98-020, "Supportability Issue for the National Guard and Reserves," November 10, 1997

Inspector General, DoD, Report No. D-97-127, "Supportability Planning for Systems Provided to the Army Reserve," April 14, 1997

Appendix B. Systems Reviewed

<u>System</u>	<u>Amount</u>	<u>Funds Expended for Reserve Components</u>
Army National Guard		
UH-60 Black Hawk Helicopter	\$385.1	Yes
Kiowa Warrior Helicopter	271.9	No
Avenger Air Defense System	124.6	No
Multiple Launch Rocket System	116.0	Yes
Howitzer/155 MM M109A6 (Paladin)	194.3	Yes
Field Artillery Ammo Support Vehicle	97.5	Yes
Bradley	83.0	Yes
Heavy Equipment Transporter System	120.1	Yes
Truck, Palletized Load System	38.9	Yes
Heavy Expanded Mobility Tactical Trucks	11.6	Yes
Truck, Tractor and Support	50.1	Yes
SINCGARS ¹	273.4	Yes
RCAS ²	298.0	Yes
Sentinel	109.3	Yes
Army Reserve		
SINCGARS ¹	104.0	Yes
RCAS ²	158.0	Yes
Truck, Tractor, Line Haul	41.0	Yes
Truck, Palletized Load System	13.8	Yes
Heavy Equipment Transporter System	16.3	Yes
Air Force Reserve		
A-10	23.3	Yes
F-16	43.9	Yes
C-5	93.7	Yes
C-141	154.5	Yes
C-130	109.0	Yes
C-135	144.7	Yes
Air National Guard		
A-10	47.1	Yes
F-16	217.9	Yes
C-5	35.8	Yes
C-141	63.1	Yes
C-130	175.7	Yes
C-135	346.9	Yes
Total	\$3,962.5	

¹Single Channel Ground-Air Radio System

²Reserve Component Automation System

Appendix C. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)
Deputy Secretary of Defense for Reserve Affairs (Materiel and Facilities)

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Naval Inspector General
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Management, Information, and Technology,
Committee on Government Reform
House Subcommittee on National Security, Veterans Affairs, and International
Relations, Committee on Government Reform

Assistant Secretary of Defense (Reserve Affairs) Comments



RESERVE AFFAIRS

ASSISTANT SECRETARY OF DEFENSE
1500 DEFENSE PENTAGON
WASHINGTON, DC 20301-1500

24 JAN 2001

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE


SUBJECT: Audit of Equipment Procurement for the National Guard and Reserve Forces
(Project No. D2000AB-0232)

Thank you for the opportunity to comment. I have reviewed the audit report and wish to extend my appreciation to you and your staff for a job, well done. Your assertion that the Services are complying with the programmed and planned equipment support of the National Guard and Reserve components is most helpful. However, there are several observations that are of concern to me and will be helpful in discharging my oversight responsibilities.

The report mentions that headquarters' management systems were not in place to obtain the needed data on expenditures and deliveries. I find it troubling that, in today's technological age, it was necessary for you to go through an arduous process of auditing the records of each individual item manager and program office to obtain the needed information. However, this is consistent with reports provided to me during the Services' semiannual equipment management briefings. The Services' difficulty in providing execution data for the Reserve component procurements in the Active component accounts is pervasive. Although, I have been given assurances that the Services would remedy this situation, it appears there is still significant work to be done. Therefore, I will continue to work with the Services to ensure that an adequate account of execution, expenditures, and deliveries of Reserve component equipment is readily available.

Additionally, while I recognize that the Services may need to reprioritize equipment distribution among Active, Guard, and Reserve components, they are also required to comply with DoD Directive and Instruction 1225.6 and 1225.7, respectively. Specifically, before transferring equipment from the Reserve to the Active components the Services must obtain the approval of the Secretary of Defense. Likewise, when equipment is requested in the President's budget for the Reserve components and Congress appropriates funds for that purpose, it is the Services' responsibility to ensure that the equipment gets to the intended user. Although some changes are unavoidable, Congress is to be notified, in accordance with the reprogramming procedures, when appropriate. I intend to closely monitor the Services execution of the Reserve component equipping programs.

Again, I wish to thank you and your staff for your research effort. If you have further questions or issues you wish to discuss, please contact my Deputy for Materiel and Facilities, Ms. Patricia Walker, at (703) 695-1677.


Charles L. Cragin
Acting



Audit Team Members

The Acquisition Management Directorate, Office of the Assistant Inspector General for Auditing, DoD, prepared this report.

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