



January 2017

OVERSEAS CONTINGENCY OPERATIONS

OMB and DOD
Should Revise the
Criteria for
Determining Eligible
Costs and Identify the
Costs Likely to
Endure Long Term

GAO Highlights

Highlights of [GAO-17-68](#), a report to congressional requesters.

Why GAO Did This Study

Since 2001 Congress has provided over \$1.6 trillion in appropriations to fund OCO. For fiscal year 2017, DOD requested \$64.6 billion in funding for OCO. While DOD's OCO budget request has included amounts for contingency operations primarily in Iraq and Afghanistan, more recently the request has also included other activities, such as efforts to deter Russia and reassure U.S. allies and partners. DOD acknowledges that many OCO costs are likely to endure after contingency operations cease.

GAO was asked to review DOD's use of OCO funds. This review assesses (1) the extent to which OMB's 2010 criteria address the activities included in DOD's OCO budget request; and (2) whether DOD has developed and reported an estimate of the costs being funded with OCO appropriations that are likely to endure beyond current contingency operations. GAO analyzed OMB's criteria for determining whether costs belonged in the OCO budget and reviewed DOD-provided information on its enduring OCO costs.

What GAO Recommends

GAO recommends that DOD, in collaboration with OMB, reevaluate and revise the criteria for determining what can be included in DOD's OCO budget requests; and that DOD develop a complete and reliable estimate of enduring OCO costs to report in future budget requests. DOD concurred with our first recommendation and plans to propose revised OCO criteria to OMB. DOD partially concurred with our second recommendation but identified no steps planned to develop and report its enduring OCO costs.

View [GAO-17-68](#). For more information, contact John Pendleton at 404-679-1816 or pendletonj@gao.gov.

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OMB and DOD Should Revise the Criteria for Determining Eligible Costs and Identify the Costs Likely to Endure Long Term

What GAO Found

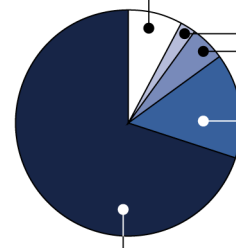
In 2010 the Office of Management and Budget (OMB), in collaboration with the Department of Defense (DOD), issued criteria for deciding whether items properly belong in the base budget or in the overseas contingency operations (OCO) funding request, but the criteria are outdated and do not address the full scope of activities included in DOD's fiscal year 2017 OCO budget request. For example, they do not address geographic areas such as Syria and Libya, where DOD has begun military operations; DOD's deterrence and counterterrorism initiatives; or requests for OCO funding to support requirements not related to ongoing contingency operations. Further, the amount of OCO appropriations DOD considers as non-war increased from about 4 percent in fiscal year 2010 to 12 percent in fiscal year 2015. DOD officials agree that updated guidance is needed but note that the Office of Management and Budget has deferred the decision to update the criteria until a new administration is in place in 2017. Without reevaluating and revising the criteria, decision makers may be hindered in their ability to set priorities and make funding trade-offs.

Fiscal Year 2017 Overseas Contingency Operations Funding Request, by Activity^a

8% (5.2 billion)

OCO funding to support base requirements

According to DOD officials, this reflects base amounts included in DOD's overseas contingency operations (OCO) budget request



2% (\$1.0 billion)

Counterterrorism Partnerships Fund

Supports partner nations and augments U.S. capability to support partners in counterterrorism operations

5% (\$3.4 billion)

European Reassurance Initiative

Funds efforts to deter Russia and reassure U.S. allies

15% (\$9.9 billion)

Operation Inherent Resolve and related missions

Supports increased activities in Iraq and Syria including training and equipping the Iraqi and Syrian forces

70% (\$45.1 billion)

Operation Freedom's Sentinel and related missions

Includes funding for training and equipping the Afghan security forces and maintains a U.S. presence in Afghanistan

Source: GAO analysis of Department of Defense (DOD) data. | GAO-17-68

^a Includes \$5.8 billion in additional OCO funds requested in a November 2016 amendment to DOD's OCO request. The amendment included \$20 million in OCO funding for Operation Odyssey Lightning not shown above.

DOD officials told GAO that the department had developed an initial estimate of costs being funded with OCO appropriations that are likely to endure beyond current operations, but has not finalized or reported its estimate outside of the department. In May and July 2016, OMB and DOD officials said the estimate of enduring costs was between \$20 billion and \$30 billion—as much as 46 percent of DOD's total OCO budget request for fiscal year 2017—and indicated that DOD continues to evaluate and revise this estimate, which might be closer to the higher end of that range. GAO recommended in 2014 that DOD develop guidance for transitioning enduring costs funded by OCO appropriations to DOD's base budget. According to DOD officials, DOD has not finalized and reported its estimate of enduring costs because current statutory spending caps limit its ability to increase base budget funding. Without a reliable estimate of DOD's enduring OCO costs, decision makers will not have a complete picture of the department's future funding needs or be able to make informed choices and trade-offs in budget formulation and decision making.

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Abbreviations

DOD	Department of Defense
FASAB	Federal Accounting Standards Advisory Board
GWOT	Global War on Terror
ISIS	Islamic State of Iraq and Syria
OCO	Overseas Contingency Operations
OMB	Office of Management and Budget
PPBE	Planning, Programming, Budgeting, and Execution

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January 18, 2017

Congressional Requesters

Since September 11, 2001, Congress has provided the Department of Defense (DOD) with over \$1.6 trillion in appropriations to fund overseas contingency operations (OCO).¹ DOD defines contingency operations as small, medium, or large-scale military operations, including support for peacekeeping operations, major humanitarian assistance efforts, noncombatant evacuation operations, and international disaster relief efforts.² Since fiscal year 2010, DOD has submitted requests for both base³ and OCO funding as part of its annual budget request to Congress.⁴ While the OCO budget request has included amounts for contingency operations primarily in Iraq and Afghanistan, more recently the OCO budget request has included a number of other operations and activities such as the European Reassurance Initiative, which is intended to deter Russia and reassure U.S. allies and partners.

In our body of work since 2007, we have reported on multiple issues associated with OCO funds, including the level of transparency in DOD's OCO funding requests, the accuracy and reliability of DOD's OCO cost reporting, and efforts to transition enduring OCO costs to DOD's base budget. For example, in November 2007, we found that changes in DOD's then Global War on Terror (GWOT) funding guidance had resulted in billions of dollars being added to GWOT funding requests for what DOD called the "longer war against terror," making it difficult to distinguish

¹Appropriated amounts are those reported by DOD in its September 2015 *Cost of War Report*.

²DOD Financial Management Regulation 7000.14-R, vol. 12, chap. 23, § 230101 (September 2007). Contingency operations are also defined in 10 U.S.C. § 101(13), which includes peacetime civil emergencies occurring within the United States.

³DOD requests and uses base funding to pay for continuing annual costs of DOD's day-to-day operations. Essentially, base costs are those costs that would be incurred whether or not a contingency operation took place.

⁴Prior to fiscal year 2010, requests for contingency operation funding were presented to Congress as requests for supplemental appropriations. Supplemental appropriations provide additional budget authority, usually in cases where the need for funds is too urgent to be postponed until enactment of the regular appropriation bill.

between incremental costs⁵ to support specific contingency operations and base costs.⁶ We recommended that DOD issue specific guidance defining what constituted “the longer war against terror,” identify what costs were related to that category, and build such costs into the base defense budget rather than into OCO. Responding to our recommendations, OMB, in collaboration with DOD, issued criteria in early 2009 to use as a guide for deciding whether funding properly belongs in the base budget or in the budget for OCO requirements. In March 2009, we found that limitations in DOD’s approach for identifying the costs associated with specific contingency operations may have resulted in an overstatement of those costs and could have led to their being included in DOD’s contingency funding requests rather than in the base budget.⁷ We recommended that DOD develop a plan and timetable for evaluating whether expenses not directly attributable to specific GWOT contingency operations were instead incremental costs that should continue to be funded outside of the base budget. DOD partially concurred with this recommendation and indicated that it collaborated with the Office of Management and Budget (OMB) to refine the criteria used for determining where costs would be categorized, either in base or OCO budgets. The criteria were subsequently updated in September 2010, but they have not been updated since that time. In June 2014, we found that U.S. Central Command primarily used OCO appropriations to operate its headquarters, although some of the costs were determined to be enduring and were expected to continue after the end of contingency operations. We recommended that DOD develop guidance for transitioning enduring costs funded with OCO appropriations to DOD’s base budget. DOD partially agreed, stating that while the timeline for transitioning enduring costs to the base budget was critical, the process could not be accomplished as a one-time event due to the evolution of threats and the impact of budget laws.⁸

⁵Incremental costs are defined as additional costs to DOD components that would not have been incurred had the contingency operation not been supported.

⁶GAO, *Global War on Terrorism: DOD Needs to Take Action to Encourage Fiscal Discipline and Optimize the Use of Tools Intended to Improve GWOT Cost Reporting*, [GAO-08-68](#), (Washington, D.C.: Nov. 6, 2007).

⁷GAO, *Global War on Terrorism: DOD Needs to More Accurately Capture and Report the Costs of Operation Iraqi Freedom and Operation Enduring Freedom*, [GAO-09-302](#) (Washington, D.C.: March 17, 2009).

⁸GAO, *Defense Headquarters: Guidance Needed to Transition U.S. Central Command’s Cost to the Base Budget*, [GAO-14-440](#) (Washington, D.C.: June 9, 2014).

You asked us to examine several issues related to OCO funds. For this report, we assessed (1) the extent to which the OMB's 2010 criteria address the activities included in DOD's OCO budget request; and (2) whether DOD has developed and reported an estimate of the costs being funded with OCO appropriations that are likely to endure beyond current contingency operations. Additionally, we discuss in appendix II how DOD has reported obligations of OCO appropriations.

To assess the extent to which the OMB's 2010 criteria address the activities included in DOD's OCO budget request, we discussed with each of the military services the processes and guidance used for building their budget requests. We also examined criteria issued by the OMB, as well as guidance issued by the Office of the Under Secretary of Defense (Comptroller) and the military services, and compared the guidance with DOD's fiscal year 2017 budget request for OCO in order to determine whether activities currently categorized under OCO are consistent with the guidance. In addition, we compared the content and timeliness of DOD's guidance and the OMB's criteria, developed in collaboration with DOD, to GAO's Standards for Internal Control in the Federal Government that relate to implementing control activities through policies and to reviewing policies periodically for continued relevance.⁹ Further, we discussed with officials from the OMB and the Under Secretary of Defense (Comptroller) the steps they take to ensure that the OCO budget request is consistent with DOD's guidance and the OMB's OCO criteria, and any plans to update the guidance.

To assess whether DOD has developed and reported an estimate of the costs being funded with OCO appropriations that are likely to endure beyond current contingency operations, we reviewed DOD's budget submissions and met with staff from the OMB, the Office of the Under Secretary of Defense (Comptroller), and each of the military services to discuss any steps taken to develop and report to Congress or other stakeholders an estimate of enduring OCO costs. We also reviewed information provided by the military services regarding those OCO costs they deemed to be enduring. In addition, we compared DOD's policies and other guidance documents and officials' related actions with cost-estimating practices in the Handbook of Federal Accounting Standards and Standards for Internal Control in the Federal Government, which,

⁹GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: September 2014).

among other things, call for agencies to provide reliable and timely information on the full costs of their federal programs aimed at assisting congressional and executive decision makers in allocating federal resources and making decisions to improve operating economy and efficiency.¹⁰

We conducted this performance audit from January 2016 to January 2017 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. More details on our objectives, scope, and methodology can be found in appendix III.

Background

As part of DOD's annual Planning, Programming, Budgeting, and Execution process, the military services and defense agencies submit a budget request—known as the Budget Estimate Submission—that addresses their estimated annual funding requirements for both base and OCO activities.¹¹ In building their budget requests the military services and defense agencies use guidance issued by the Office of the Under Secretary of Defense (Comptroller) as well as guidance issued within their own organizations, including criteria for determining whether requirements belong in the base or in the OCO budget requests. Specifically, the military services and defense agencies use guidance in the September 2007 Financial Management Regulation, DOD 7000.14-R, volume 12, chapter 23, and OMB's September 2010 Criteria for War/Overseas Contingency Operations Funding Requests for determining whether requests for funding should be included in the base or in the OCO funding requests.

The Under Secretary of Defense (Comptroller) is responsible for conducting and coordinating DOD's budget review activities, which

¹⁰Federal Accounting Standards Advisory Board (FASAB), *Handbook of Federal Accounting Standards and Other Pronouncements, as Amended*, June 30, 2015. GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: September 2014).

¹¹DOD's budgeting process is governed by DOD Directive 7045.14, *The Planning, Programming, Budgeting, and Execution (PPBE) Process* (Jan. 25, 2013), and supplemented by military department guidance.

include preparation of annual budget request submissions. Upon receipt of the budget request from the military services and defense agencies, budget analysts in the Office of the Under Secretary of Defense (Comptroller) review the requests, focusing on issues such as whether the requested funds can be executed in the budget year. Per agreement between the Office of the Under Secretary of Defense (Comptroller) and the OMB, senior budget examiners from the OMB also participate in the budget review process at this point to preclude the necessity for a separate review by the OMB. Officials from both offices work together to review the military services' budget submissions to ensure that requested funding aligns with current policy and is sufficiently justified to Congress. Once approved, the Budget Estimate Submission is included in the annual President's Budget.

The Budget Control Act of 2011, as amended, imposes government-wide discretionary spending limits for fiscal years 2012 through 2021 to reduce projected spending by about \$1 trillion over a 10-year period.¹² All amounts appropriated to DOD are subject to specific limits on defense spending. Appropriated amounts designated for OCO that would otherwise exceed the annual limits established for defense spending will instead result in an adjustment to the overall defense spending limit established for a particular fiscal year, and will not trigger a sequestration, which is an automatic cancellation of budgetary resources provided by discretionary appropriations or direct spending laws.¹³

The Bipartisan Budget Act of 2015 provided for a base funding level in fiscal year 2017 of \$551 billion for defense and provided for a specified

¹²The Budget Control Act of 2011, Pub. L. No. 112-25 (2011) provides that new budget authority may not exceed the discretionary spending limits through fiscal year 2021. The Bipartisan Budget Act of 2013, Pub. L. No. 113-67 (2013), followed by the Bipartisan Budget Act of 2015, Pub. L. No. 114-74 (2015) adjusted discretionary spending limits and extended sequestration of direct spending into fiscal year 2025. The Budget Control Act of 2011 also amended the sequestration process established in the Balanced Budget and Emergency Deficit Control Act of 1985 that, if triggered as a result of Congress breaching discretionary spending limits, requires an across-the-board reduction of non-exempt accounts within a category to eliminate the breach. Discretionary spending refers to budget authority, except to fund direct spending programs that is provided in and controlled by appropriation acts.

¹³These funds were designated for GWOT from 2001 to 2009, and from 2009 to the present these funds have been designated for OCO. The Bipartisan Budget Act of 2015, Pub. L. No. 114-74, title I, § 101(d) (Nov. 2, 2015), provides for an almost \$74 billion annual adjustment in the discretionary spending limits in fiscal years 2016 and 2017 for amounts designated for OCO/GWOT.

amount of \$58.8 billion in adjustments to the defense cap for OCO funding for fiscal year 2017.¹⁴ Consistent with the expected amount set by the Bipartisan Budget Act of 2015, DOD's initial fiscal year 2017 budget request for OCO was \$58.8 billion. In November 2016, DOD submitted to Congress an amendment to its initial request for an additional \$5.8 billion in OCO funding to support requirements that were unforeseen at the time of the original budget submission.

Criteria DOD Uses for Determining Items Appropriate for Its OCO Budget Request Do Not Address the Full Scope of Activities Included in Its OCO Budget Request

In 2010, in collaboration with DOD, the OMB developed updated criteria for deciding whether items properly belong in the base or in the OCO funding request, but these criteria do not address the full scope of activities included in DOD's fiscal year 2017 OCO budget request. DOD uses the OMB's guidance in determining what costs are eligible to be included in its OCO budget requests. However, the criteria were issued in 2010, when military operations in Iraq and Afghanistan were the principal contingency operations supported by DOD, and these criteria do not address geographic areas, such as Syria and Libya, where DOD has begun combat operations since the criteria were first developed. Further, according to officials, the criteria were not applied to the department's deterrence and counterterrorism initiatives, such as the \$3.4 billion requested in fiscal year 2017 for the European Reassurance Initiative, or to the \$5.2 billion of its OCO request intended to fund base budget requirements, such as readiness and readiness support requirements.

OMB's Criteria Are Intended to Guide DOD's OCO Budget Requests

Criteria developed in collaboration with DOD and issued by the OMB in September 2010 provide guidance for determining whether funding properly belongs in the base or in the OCO funding request. DOD officials stated that the OMB's criteria are the principal guidance used to make determinations regarding what should be included in their OCO funding requests. The criteria identify items and activities eligible for OCO funding so long as they are associated with specified geographic areas, such as Afghanistan, Iraq, and Pakistan, in which combat or direct combat support operations are occurring. Other geographic areas not specifically identified in the criteria may be included on a case-by-case basis. Eligible OCO items and activities include, among others, the replacement or

¹⁴The \$551 billion provided by the Bipartisan Budget Act is designated for "security category" funding which includes discretionary appropriations associated with agency budgets for the Departments of Defense, Homeland Security, Veterans Affairs, the National Security Administration, and some components of intelligence and international affairs communities.

repair of major equipment lost in operations, the replacement of ground equipment, equipment modifications, aircraft replacement, the cost of direct combat operations, short-term health care related to combat, and special pay for deployed service members. The criteria also specifically exclude certain activities from OCO funding requests. Some exclusions are expenses related to equipment service-life extension programs, base realignment and closure projects, family support initiatives, personnel costs relating to recruiting and retention, and maintenance of industrial base capacity. The complete list of OCO criteria can be found in appendix I.

Existing Criteria Do Not Address the Full Scope of Activities Included in DOD's OCO Budget Request

We recommended in November 2007 that DOD shift certain contingency costs into the annual base budget to allow for prioritization and trade-offs among DOD's needs and to enhance visibility in defense spending.¹⁵ The department concurred with this recommendation and in February 2009 the OMB, in collaboration with DOD, issued criteria to assist in determining whether funding properly belonged in DOD's base budget or in its budget for OCO. The criteria were subsequently updated in September 2010 to build on prior experience by clarifying language, eliminating areas of confusion, and providing guidance for activities previously unanticipated. OMB's criteria were issued when military operations in Iraq and Afghanistan were the principal contingency operations supported by DOD. Since 2010 the scope of activities funded through the OCO has evolved and, as a result, the criteria do not specifically address activities included in DOD's fiscal year 2017 OCO budget request. Specifically, the criteria do not address operations in new geographic areas such as Syria and Libya, the department's deterrence and counterterrorism initiatives, or requests for OCO amounts to fund base budget requirements, such as readiness.

- Operations in New Geographic Areas

Since the criteria were issued in 2010, DOD has begun military operations in several countries, such as Syria and Libya, to fight the spread of the Islamic State of Iraq and Syria (ISIS). Neither Syria nor Libya is specifically included in the 2010 criteria as designated geographic areas covered for purposes of OCO funding, although the criteria allow for the addition of other areas on a case-by-case basis. In October 2014, DOD designated military operations against ISIS as

¹⁵[GAO-08-68](#).

Operation Inherent Resolve. As part of the operation, DOD has conducted airstrikes against ISIS forces and provided training, equipment, advice, and assistance to forces on the ground that are partnered with the United States. For fiscal year 2017, DOD requested \$9.9 billion in OCO funds for Operation Inherent Resolve and other related missions against ISIS. In August 2016, DOD began Operation Odyssey Lightning, which includes precision airstrikes against ISIS in Libya. For fiscal year 2017, DOD requested \$20 million for Operation Odyssey Lightning. According to officials from the Office of the Under Secretary of Defense (Comptroller), OMB annually reviews exceptions to the criteria submitted in DOD's budget requests and has granted DOD waivers to allow exceptions, such as for operations in countries not included in the criteria to be included in its OCO funding request as a short-term fix until the criteria can be updated.

- Deterrence and Counterterrorism Initiatives

According to officials from the Office of the Under Secretary of Defense (Comptroller), the OMB's 2010 criteria were not applied to the department's deterrence and counterterrorism initiatives included in its OCO budget request for fiscal year 2017. For example, DOD's fiscal year 2017 OCO budget request seeks \$3.4 billion for the European Reassurance Initiative, intended to deter Russia and reassure U.S. allies and partners, particularly within Central and Eastern Europe. Specifically, the requested amount would enhance training and exercises, support improvements to key infrastructure, and fund three continuous brigade-sized rotations to train with allies. In addition, DOD's fiscal year 2017 OCO budget request includes \$1 billion for the Counterterrorism Partnership Fund, intended to provide direct counterterrorism support to partner nations and augment U.S. capability to support partners in counterterrorism operations. As described in appendix II to this report, the obligation of appropriations for these initiatives was not included in required monthly reporting on the costs of war.¹⁶ In appendix II, we describe in more detail how

¹⁶Cost of War reports are submitted to Congress on a monthly basis and detail obligations associated with certain contingency operations. Since fiscal year 2010, contingency operations execution reports have been provided for Operation Iraqi Freedom, Operation Enduring Freedom, Operation New Dawn, Operation Inherent Resolve, and Operation Freedom's Sentinel. DOD 7000.14-R, Financial Management Regulation, vol. 12, chap. 23, Annex 1 (Sept. 2005) prescribes the content of the execution reports.

DOD reports on the obligation of OCO appropriations, including appropriations for the European Reassurance Initiative and Counterterrorism Partnership Fund.

- OCO Funding in Support of Base Requirements

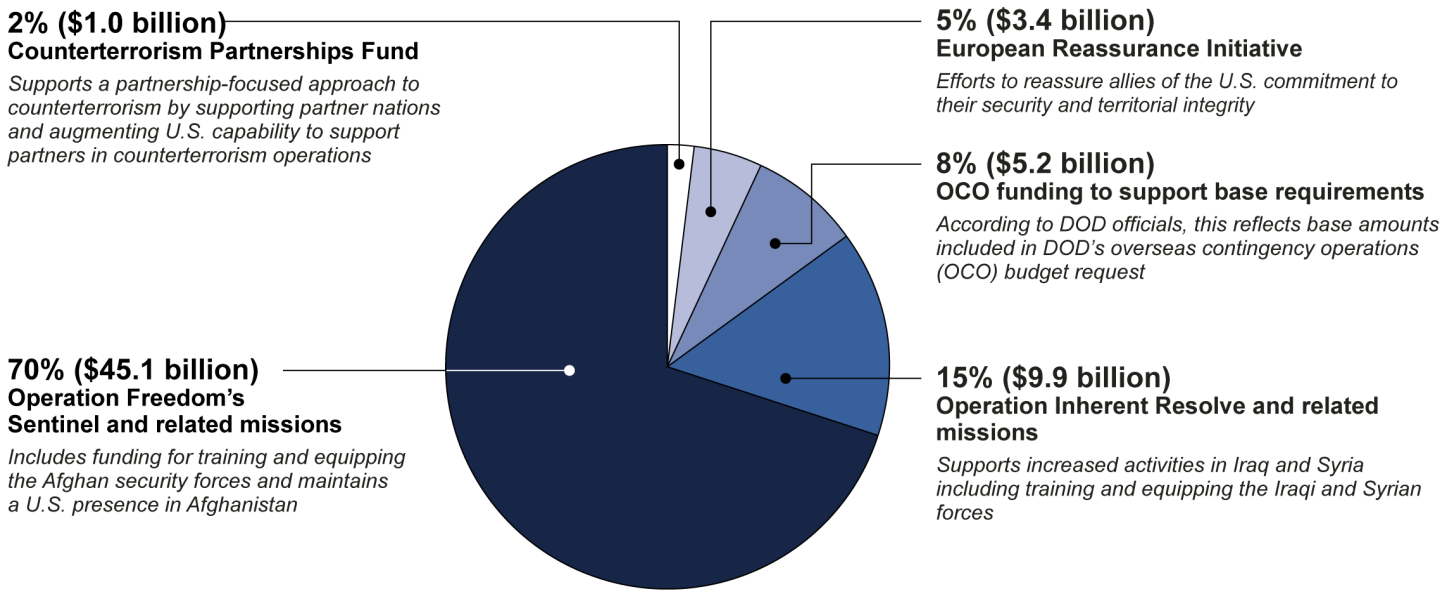
DOD's fiscal year 2017 OCO budget request also includes about \$5.2 billion in what DOD identifies as Bipartisan Budget Act (BBA) of 2015 Compliance. According to DOD officials, these are base amounts included in DOD's OCO budget request in order to reach the fiscal year 2017 OCO appropriations level of \$58.8 billion, which was specified by the Bipartisan Budget Act of 2015. DOD identified activities supported by the \$5.2 billion as including readiness, readiness support requirements, increased counterterrorism activities in Africa, and preferred munitions. These activities are not specifically included in the OMB's 2010 OCO criteria. GAO has previously reported that Congress made additional OCO funding available for base programs and activities in fiscal years 2009 through 2016. Specifically, Congress made additional funding available to DOD's O&M base in two areas: OCO funding for programs and activities requested in the base budget itself, and OCO funding for readiness-related efforts.¹⁷

Taking DOD's fiscal year 2017 OCO budget request as a whole, about \$45.1 billion (70 percent) of DOD's request is for supporting Operation Freedom's Sentinel and related missions, primarily in Afghanistan, to train, advise, and assist Afghan forces and to conduct counter-terrorism operations against the remnants of Al Qaeda. However, the remaining \$19.5 billion (30 percent) of DOD's fiscal year 2017 request is for activities that may not be specifically addressed by the OMB's 2010 criteria.¹⁸ Figure 1 shows the percentage, by activity, of DOD's fiscal year 2017 OCO budget request.

¹⁷GAO, *Defense Budget: DOD Needs to Improve Reporting of Operation and Maintenance Base Obligations*, [GAO-16-537](#) (Washington, D.C.: Aug. 16, 2016). Congress provided guidance for the use of OCO funds for base activities in conference reports and explanatory statements accompanying DOD appropriations acts for fiscal years 2010 through 2016.

¹⁸Operation Inherent Resolve includes Iraq, which is addressed by the OMB guidance, but it also includes countries such as Syria, which is not addressed by the guidance.

Figure 1: Fiscal Year 2017 Overseas Contingency Operations Funding Request, by Activity^a



Source: GAO analysis of Department of Defense (DOD) data. | GAO-17-68

^a Includes \$5.8 billion in additional OCO funds requested in a November 2016 amendment to DOD's OCO request. The amendment included \$20 million in OCO funding for Operation Odyssey Lightning not shown above.

Moreover, the proportion of OCO appropriations DOD considers to be non-war increased between fiscal years 2010 and 2015. DOD is required to report operations costs associated with specific contingency operations.¹⁹ The reports, referred to as Cost of War Reports, are produced monthly. Our analysis of past reports found that, while overall OCO appropriations have been trending down since 2010, the proportion of OCO appropriations not associated with specific operations identified in the statutory Cost of War reporting requirement has trended upward over the period. In fiscal year 2010, the Cost of War Report excluded about \$6.4 billion of OCO appropriations, or about 4 percent of the overall OCO appropriation. By 2015, the amount excluded was about \$7.4 billion, but

¹⁹The Cost of War Execution Report requirement is included in DOD's annual appropriations act. The statute requires that DOD report on specifically named operations such as Operation Enduring Freedom and Operation Inherent Resolve, any named successor operations, and any other operation designated and identified by the Secretary of Defense as being a contingency operation under 10 U.S.C. § 127a. See e.g. *Consolidated and Further Continuing Appropriations Act, 2015*, Pub. L. No. 113-235, div. C, title VIII, § 8097 (Dec. 16, 2014).

this represented 12 percent of DOD's OCO appropriations in fiscal year 2015. This is shown in table 1 below and explained further in appendix II to this report.

Table 1: Overseas Contingency Operations (OCO) Appropriations Included in or Excluded from Cost of War Report from Fiscal Years 2010 (FY) through 2015 (dollars in billions)

	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	Total, FY2010- FY2015
War-related OCO appropriations (included in Cost of War report)	150.1	148.0	104.5	77.1	71.1	53.1	604.0
Non-war OCO appropriations (excluded from Cost of War report)	6.4	5.4	4.6	1.9	10.2	7.4	37.1
Total OCO appropriations	156.5	153.4	109.2	79.1	81.3	60.5	641.1
Percent of total OCO appropriations excluded from Cost of War report	4%	4%	4%	2%	13%	12%	6%

Source: GAO analysis of DOD data. | GAO-17-68

Note: Data excludes classified OCO appropriations, which are also excluded from the Cost of War Reports. Appropriated amounts are those reported by DOD in its September 2015 Cost of War report.

According to GAO's Standards for Internal Control in the Federal Government, management should implement control activities through policies and should periodically review those policies for continued relevance if there is a significant change. Congress has also recognized that the OMB criteria are outdated and urged the OMB to update its criteria. Specifically, the Fiscal Year 2015 Joint Explanatory Statement for the National Defense Authorization Act noted that the criteria developed by the OMB for OCO funding requests have not been updated in over 4 years, during which time significant fact-of-life world events have occurred that dictate a need to re-examine and update those criteria to ensure that they remain relevant and adaptable for evaluating DOD budget and reprogramming requests. Congress encouraged DOD to evaluate the OCO criteria on a regular basis to ensure proper delineation of base and OCO budget requests, and urged the OMB to update its OCO criteria in time to support the fiscal year 2016 budget submission. However, according to officials, DOD's budgets for fiscal years 2016 and 2017 were developed using the existing, but outdated, OCO criteria developed in 2010.

DOD Acknowledges Need to Update Criteria But Is Deferring Action

Officials from the Office of the Under Secretary of Defense (Comptroller) acknowledged that the OMB criteria need to be updated to address geographic areas where contingency operations are currently ongoing, such as Syria and Libya. However, DOD officials noted that the OMB has deferred the decision to update the criteria until a new administration is in place in 2017. Further, officials from the Office of the Under Secretary of Defense (Comptroller) also told us that the deterrence and counterterrorism initiatives included in DOD's OCO budget request for fiscal year 2017 were not evaluated against the OMB criteria in light of an Administration decision to include funding for the European Reassurance Initiative and Counterterrorism Partnership Fund in DOD's OCO budget request beginning in 2015. Therefore, DOD did not apply the criteria. Without the OMB and DOD reevaluating and revising the criteria for determining items and activities that can appropriately be included in DOD's OCO budget request, decision makers may be hindered in their ability to set priorities and make funding trade-offs.

DOD Has Developed an Initial Estimate of Its Enduring Costs but Has Not Finalized and Reported the Estimate Externally

DOD officials told us that the department had developed an initial estimate of costs being funded with OCO appropriations that are likely to endure beyond current operations, but that it has not finalized or reported its estimate outside of the department. According to DOD officials, an internal working group established in 2014 estimated that enduring costs account for between \$20 billion and \$30 billion per year – as much as 46 percent of DOD's total OCO budget request for fiscal year 2017.

DOD Developed an Initial Estimate of Its Enduring OCO Costs

In May and July 2016, the OMB and DOD officials respectively told us that the estimate of DOD's enduring OCO costs, those costs that would remain after the contingency operations end, and that would need to be transitioned to DOD's base budget request if OCO funding were no longer available, are in the range of \$20 billion to \$30 billion per year. According to DOD officials, this estimate was preliminary and was developed by a working group established by DOD in 2014, to include the military services, tasked with identifying DOD's enduring OCO costs. As part of this effort, DOD officials stated, the working group was asked to identify costs the military services had funded with OCO to maintain full readiness levels, in areas such as depot maintenance and ship operations, and to identify costs expected to continue once combat operations have concluded. Although the officials stated that the estimate came from

efforts within the working group, they did not provide any documentation of how the estimate was developed.

Service officials indicated that they have continued efforts to determine the magnitude of OCO funds used to support enduring requirements. We discussed with each of the military services what efforts they were taking to identify enduring costs, and both the Army and the Navy provided us evidence that they were beginning to categorize and identify enduring OCO requirements and the associated costs of those requirements. For example, the Navy stated that it was beginning to capture its enduring OCO requirements such as those required to leverage full readiness levels. Additionally, Army officials shared with us that the Army had begun categorizing and tracking in its financial management system its OCO requirements that would likely endure beyond current contingency operations. Army officials estimated that over 40 percent of its fiscal year 2017 OCO funding is needed to support functions they consider to be enduring, including requirements for the European Reassurance Initiative.

According to officials with the Office of the Under Secretary of Defense (Comptroller), the initial estimate of enduring costs of between \$20 billion and \$30 billion did not include the \$5.2 billion in OCO funding requested for base requirements. These officials indicated that the department continues to evaluate and revise this estimate, and that it could be closer to the higher end of the range.

DOD Has Not Finalized and Reported Its Estimate of Enduring OCO Costs

DOD has acknowledged that some of its OCO costs could be enduring. Although the department has acknowledged that it has OCO costs that will continue once its current combat operations cease, it has not finalized and reported an estimate of its enduring OCO costs to Congress. DOD continues to evaluate OCO requirements and its future impact to the out-year budget. However, the department is not developing long-term OCO requirements as part of the budget and programming process (e.g., Future Year Defense Program).²⁰

²⁰The Future Years Defense Program is a 5-year funding plan by appropriation that identifies the immediate budget priorities and future projections for the next 4 fiscal years. The Future Years Defense Program reflects decisions made in DOD's annual budget process and represents estimated funding that the President requests from Congress for the current budget year and at least 4 fiscal years following it. The 5-year funding plans are specific to DOD's total base funding and do not currently include OCO funding.

We have previously identified multiple issues associated with the use of OCO funds and efforts to transition enduring OCO costs to the base budget. In June 2014 we found that U.S. Central Command, two of its service component commands, and its theater special operations command headquarters primarily used OCO appropriations to operate their headquarters, although some of the costs were determined to be enduring and were expected to continue after the end of contingency operations. We recommended that DOD develop guidance for transitioning enduring costs funded by OCO appropriations to DOD's base budget request. DOD partially agreed, stating that while the timeline for transitioning enduring costs to the base budget was critical, the process could not be accomplished as a one-time event due to the evolution of threats and the impact of budget laws.²¹

Congress has also expressed interest in knowing the total cost of enduring activities. Specifically, the Senate Appropriations Committee's report accompanying a bill for DOD's fiscal year 2015 appropriations stated that the committee does not have an understanding of enduring activities funded by the OCO budget or a clear path forward in migrating enduring resources to the base budget.²² The committee further noted that there is a potential for risk entailed in continuing to fund non-contingency-related activities through the OCO budget.

In its fiscal year 2016 budget request, DOD reported that the Administration intended to propose a plan to transition its enduring OCO costs to the base budget. According to information included in DOD's budget, as the U.S. combat mission ended in Afghanistan, it was time to reconsider the appropriate financing mechanism for costs of overseas operations that were enduring. The plan envisioned by the Administration would transition all enduring costs currently funded in the OCO budget to the base budget beginning in 2017 and ending by 2020. However, it was also asserted that the transition would not be possible if the sequester-level discretionary spending caps were to remain in place.²³ According to

²¹[GAO-14-440](#).

²²S. Rep. No. 113-211 (July 17, 2014), accompanying H.R. 4870.

²³The sequester-level spending caps referenced by DOD pertain to limits on new budget authority established under the Budget Control Act of 2011, Pub. L. No. 112-25 (2011) and amended by the Bipartisan Budget Act of 2013, Pub. L. No. 113-67 (2013), and the Bipartisan Budget Act of 2015, Pub. L. No. 114-74 (2015). Under the laws, new budget authority may not exceed the discretionary spending limits through fiscal year 2021.

DOD officials, the plan was not submitted, since the fiscal year 2017 budget was developed so as to be consistent with the Bipartisan Budget Act of 2015, which increased the amount of enduring costs funded in OCO.

Both GAO and other federal standards emphasize that agencies should provide complete and reliable information on the costs of programs to make decisions and that they should communicate information externally. Specifically, Standards for Internal Control in the Federal Government emphasizes using complete information to make decisions and then to communicate such information externally.²⁴ The FASAB Handbook of Federal Accounting Standards and Other Pronouncements, as Amended, also requires agencies to provide reliable information on the full costs of their federal programs aimed at assisting congressional and executive decision makers in allocating federal resources and making decisions to improve operating economy and efficiency.²⁵

According to DOD officials, although DOD developed an initial estimate of enduring costs, DOD has not finalized and reported its estimate of enduring costs externally because current statutory spending caps limit its ability to increase base budget funding. Without the finalized estimates, it remains difficult to determine which enduring costs are supported with OCO funds. Further, without a complete and reliable estimate of DOD's enduring OCO costs, neither DOD nor congressional decision makers will have a complete picture of the department's future funding needs.

Conclusions

Intended to be short-term emergency funding for contingency operations, OCO funding has evolved to become an established and significant part of DOD's budget. However, the underlying criteria for OCO funding requests have not kept pace with this evolution. The OMB 2010 criteria, developed in concert with DOD, were issued as a means to determine whether funding properly belongs in DOD's base budget or, alternatively, in its budget for OCO. Now 6 years later, the criteria are not reflective of DOD's current operations, which include Libya and Syria. Moreover, activities such as deterrence and counterterrorism initiatives, which are not directly related to ongoing military operations, are also being funded

²⁴[GAO-14-704G](#).

²⁵Federal Accounting Standards Advisory Board, *FASAB Handbook of Federal Accounting Standards and Other Pronouncements, as Amended*, June 30, 2015.

with OCO amounts. Continued reliance on outdated criteria that do not reflect the current policy for how OCO funds are to be used will only further reduce budget clarity and erode the credibility of DOD's OCO budget request. Further, the lack of a complete and reliable estimate of enduring costs makes it difficult to ensure that Congress has a complete picture of the department's future funding requirements. Such an estimate would also assist in planning for a transition to budgets that do not rely on OCO to cover non-war-related costs. Without a reliable estimate of enduring costs, decision makers will not have information needed to make informed choices and trade-offs in budget formulation and decision-making.

Recommendations for Executive Action

To provide additional information for congressional decision makers regarding DOD's budget, we recommend that the Secretary of Defense direct the Under Secretary of Defense (Comptroller), in consultation with the OMB, to reevaluate and revise the criteria for determining what can be included in DOD's OCO budget requests to reflect current OCO-related activities and relevant budget policy directing in which budget requests OCO funds may be included.

To assist decision makers in formulating DOD's future budgets, we recommend that the Secretary of Defense direct the Under Secretary of Defense (Comptroller) to develop a complete and reliable estimate of DOD's enduring OCO costs and to report these costs in concert with the department's future budget requests, and to use the estimate as a foundation for any future efforts to transition enduring costs to DOD's base budget.

Agency Comments and Our Evaluation

We provided a draft of this report to DOD for review and comment. In its written comments, reproduced in appendix IV, DOD concurred with our first recommendation that it, in consultation with the Office of Management and Budget, reevaluate and revise the criteria for determining what can be included in DOD's OCO budget requests. DOD commented that it plans to propose revised criteria to OMB that will accommodate the current and evolving threats worldwide, as well as reflect any changes to OCO policy adopted by the new administration.

DOD partially concurred with our second recommendation that it develop a complete and reliable estimate of its enduring OCO costs, report those costs in concert with DOD's future budget requests, and use the estimate as a foundation for future efforts to transition enduring OCO costs to the

base budget. The department commented that developing reliable estimates of enduring OCO costs is an important first step to any future effort to transition enduring OCO costs to the base budget and commented that in the context of such an effort, it would consider developing and reporting formal estimates of those costs. However, DOD stated that until there is relief from the budgetary caps established by the Budget Control Act of 2011, DOD will need OCO to finance counterterrorism operations such as Operation Freedom Sentinel and Operation Inherent Resolve. While DOD concurs that developing reliable estimates of enduring OCO costs is an important first step in any future effort to transition these costs to the base budget, DOD offered no plans to take action to address this recommendation. We continue to believe that developing and reporting formal estimates of enduring costs, particularly costs that are not specifically addressed by OMB's 2010 criteria, such as OCO funding used to support base requirements, and funding for the European Reassurance Initiative and Counterterrorism Partnership Fund is important to provide Congress with a complete picture of DOD's long term budget needs for use in future budget formulation. DOD also provided technical comments, which we incorporated as appropriate.

We are sending copies of this report to the Secretary of Defense and appropriate congressional committees. In addition, the report is 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 me at (404) 679-1816 or pendletonj@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in appendix V.



John Pendleton
Director
Defense Capabilities and Management

List of Requesters

The Honorable Bernard Sanders
Ranking Member
Committee on the Budget
United States Senate

The Honorable John Yarmuth
Ranking Member
Committee on the Budget
House of Representatives

The Honorable Chris Van Hollen
United States Senate

Appendix I: Office of Management and Budget's Criteria for Overseas Contingency Operations (OCO) Funding Requests, Issued in September 2010

Item	Definition of Criteria
Geographic area covered/ "Theater of operations" (for non-classified war/ overseas contingency operations funding)	<p>Geographic areas in which combat or direct combat support operations occur: Iraq , Afghanistan, Pakistan, Kazakhstan, Tajikistan, Kyrgyzstan, the Horn of Africa, Persian Gulf and Gulf nations, Arabian Sea, the Indian Ocean, the Philippines, and other countries on a case-by-case basis.</p> <p>Note: OCO budget items must also meet the criteria below.</p>
Inclusions	
Major equipment (General)	<p>Replacement of losses that have occurred but only for items not already programmed for replacement in the Future Years Defense Plan (FYDP) — no accelerations. Accelerations can be made in the base budget.</p> <p>Replacement or repair to original capability (to upgraded capability if that is currently available) of equipment returning from theater. The replacement may be a similar end item if the original item is no longer in production. Incremental cost of non-war related upgrades, if made, should be included in the base.</p> <p>Purchase of specialized, theater-specific equipment. Funding must be obligated within 12 months.</p>
Ground equipment replacement	<p>Combat losses and washouts (returning equipment that is not economical to repair); replacement of equipment given to coalition partners, if consistent with approved policy; in-theater stocks above customary equipping levels on a case-by-case basis.</p>
Equipment modifications (enhancements)	<p>Operationally-required modifications to equipment used in theater or in direct support of combat operations, for which funding can be obligated in 12 months, and that is not already programmed in FYDP.</p>
Munitions	<p>Replenishment of munitions expended in combat operations in theater. Training ammunition for theater-unique training events is allowed. Forecasted expenditures are not allowed. Case-by-case assessment for munitions where existing stocks are insufficient to sustain theater combat operations.</p>
Aircraft Replacement	<p>Combat losses, defined as losses by accident or by enemy action that occur in the theater of operations.</p>
Military Construction	<p>Facilities and infrastructure in the theater of operations in direct support of combat operations. The level of construction should be the minimum to meet operational requirements. At non-enduring locations, facilities and infrastructure for temporary use are covered. At enduring locations, construction requirements must be tied to surge operations or major changes in operational requirements and will be considered on a case-by-case basis.</p>
Research and Development	<p>Projects required for combat operations in these specific theaters that can be delivered in 12 months.</p>

Appendix I: Office of Management and Budget's Criteria for Overseas Contingency Operations (OCO) Funding Requests, Issued in September 2010

Item	Definition of Criteria
Operations	<p>Direct War costs:</p> <ul style="list-style-type: none"> transport of personnel, equipment, and supplies to, from and within the theater of operations; deployment specific training and preparation for units and personnel (military and civilian) to assume their directed missions as defined in the orders for deployment into the theater of operations; <p>Within the theater, the incremental costs above the funding programmed in the base budget to:</p> <ul style="list-style-type: none"> support commanders in the conduct of their directed missions (to include Emergency Response Programs); build and maintain temporary facilities; provide food, fuel, supplies, contracted services and other support; and, cover the operational costs of coalition partners supporting US military missions, as mutually agreed. <p>Indirect War Costs: Indirect war costs incurred outside the theater of operations will be evaluated on a case-by-case basis.</p>
Health	Short-term care directly related to combat. Infrastructure that is only to be used during the current conflict.
Personnel (Incremental Pay)	Incremental special pays and allowances for Service members and civilians deployed to a combat zone; incremental pay, special pays and allowances for Reserve Component personnel mobilized to support war missions.
Special Operations Command	Operations and equipment that meet the criteria in this guidance.
Prepositioned Supplies and Equipment	Resetting in-theater stocks of supplies and equipment to pre-war levels - Excludes costs for reconfiguring prepositioned sets or for maintaining them.
Security Force Funding	Training, equipping, and sustaining Iraqi and Afghan military and police forces.
Fuel	War fuel costs, and funding to ensure that logistical support to combat operations is not degraded due to cash losses in DoD's baseline fuel program. Would fund enough of any base fuel shortfall attributable to fuel price increases to maintain sufficient on-hand cash for the Defense Working Capital Funds to cover seven days disbursements. (This would enable the Fund to partially cover losses attributable to fuel cost increases.)
Exclusions from war/overseas contingency funding – appropriately funded in the base budget	
Training equipment	Training vehicles, aircraft, ammunition, and simulators. Exception: training base stocks of specialized, theater-specific equipment that is required to support combat operations in the theater of operations, and support to deployment-specific training described above.
Equipment Service Life Extension Programs (SLEPs)	Acceleration of SLEPs already in the FYDP.
Base Realignment and Closure (BRAC)	BRAC projects.
Family Support Initiatives	Family support initiatives to include the construction of childcare facilities; funding private-public partnerships to expand military families' access to childcare; and support for service members' spouses professional development.
Industrial Base Capacity	Programs to maintain industrial base capacity (e.g. "war-stoppers").

Appendix I: Office of Management and Budget's Criteria for Overseas Contingency Operations (OCO) Funding Requests, Issued in September 2010

Item	Definition of Criteria
Personnel	Recruiting and retention bonuses to maintain end-strength. Basic Pay and the Basic allowances for Housing and Subsistence for permanently authorized end strength. Individual augmentees will be decided on a case-by-case basis.
Office of Security Cooperation	Support for the personnel, operations, or the construction or maintenance of facilities, at U.S. Offices of Security Cooperation in theater
Special situations	
Reprogrammings and paybacks	Items proposed for increases in reprogrammings or as payback for prior reprogrammings must meet the criteria above.

Source: OMB information. | GAO-17-68

Appendix II: Department of Defense (DOD) Reporting on Obligation of Overseas Contingency Operation (OCO) Appropriations

DOD reports on the costs of certain contingency operations monthly to Congress through its Cost of War report. According to the Fiscal Year 2016 Instructions for Reporting on the Cost of War issued by the Office of the Under Secretary of Defense (Comptroller), the Cost of War report is intended to provide stakeholders, such as Congress, visibility into the ways in which war-related OCO appropriations are obligated. DOD produces the Cost of War reports to address a congressional requirement to report on obligations and disbursements related to select operations identified by Congress, such as Operation Freedom's Sentinel (primarily in Afghanistan) and Operation Inherent Resolve (primarily in Iraq and Syria).¹ DOD also reports on additional operations based on annual guidance from the Office of the Under Secretary of Defense (Comptroller) that instructs the components on which contingency operations they are to report against. In addition to Operations Freedom's Sentinel and Inherent Resolve, the instructions for fiscal year 2016 also included Operation Enduring Freedom, Operation Noble Eagle, and post-Operation New Dawn Iraq activities. DOD reports on obligations associated with these operations based on guidance within DOD 7000.14-R, Financial Management Regulation, volume 12, chapter 23, (Sept. 2007) which generally defines what is considered a contingency cost and establishes requirements for how the department is to report on those costs.²

According to DOD's September 2015 Cost of War report, of the \$1.56 trillion in OCO funds appropriated from fiscal years 2001 through 2015, DOD considers about \$1.41 trillion as war funds, with the remainder deemed as either unrelated to ongoing contingency operations—a category that DOD refers to as “non-war”—or for classified purposes. For

¹Reporting OCO obligations was most recently required by section 8093 of the Consolidated Appropriations Act, 2016, Pub. L. No. 114-113 (2015). An obligation is a definite commitment that creates a legal liability of the government for the payment of goods and services ordered or received.

²Because the Cost of War reports are a monthly snapshot of real time financial execution, reported obligations are estimated amounts. As such the annual estimates in the annual budget justification materials may vary from the annual estimates contained in the Cost of War reports as the components make corrections to the estimated obligation amounts in support of overseas contingency operations. DOD's Cost of War report is not an auditable financial statement.

**Appendix II: Department of Defense (DOD)
Reporting on Obligation of Overseas
Contingency Operation (OCO) Appropriations**

fiscal years 2010 through 2015, DOD’s Cost of War reports have included data on about 94 percent of its OCO appropriations.³

Table 2: Overseas Contingency Operations (OCO) Appropriations Included in or Excluded from Cost of War Report for Fiscal Years (FY) 2010—2015 (dollars in billions)

	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	Total, FY2010- FY2015
War-related OCO appropriations (included in Cost of War report)	150.1	148.0	104.5	77.1	71.1	53.1	604.0
Non-war OCO appropriations (excluded from Cost of War report)	6.4	5.4	4.6	1.9	10.2	7.4	36.1
Total OCO appropriations	156.5	153.4	109.2	79.1	81.3	60.5	640.1
Percentage of total OCO appropriations included in Cost of War report	96%	96%	96%	98%	87%	88%	94%

Source: GAO analysis of DOD data. | GAO-17-68

Note: Data exclude classified OCO appropriations, which are also excluded from the Cost of War report. Appropriated amounts are those reported by DOD in its September 2015 Cost of War report.

In addition to obligations associated with OCO-designated appropriations, the Cost of War report includes obligations of base funds if they are considered to be war-related, as well as war-related obligations of funds that are transferred into OCO accounts, according to DOD officials and guidance. Obligations associated with non-war OCO appropriations are not included in DOD’s Cost of War reporting. For example, for fiscal year 2015, \$7.4 billion in non-war OCO appropriations were not included in the Cost of War reports. The appropriations excluded include the following:

- \$5.1 billion in funds requested by DOD for base needs and provided for in DOD’s OCO appropriation, as well as other baseline programs funded in OCO by Congress;⁴
- \$1.3 billion for the Counterterrorism Partnership Fund;⁵ and

³Appropriated amounts are those reported by DOD in its September 2015 Cost of War report.

⁴This amount includes funds requested by DOD for base needs and provided for by Congress in DOD’s OCO appropriation. The \$5.1 billion is comprised of \$2.9 billion in base-to-OCO transfers, \$1.2 billion provided for National Guard and Reserve Equipment, and \$1 billion for the purpose of improving military readiness provided for by section 9018 of the Consolidated and Further Continuing Appropriations Act, 2015, Pub. L. No. 113-235 (2014). According to Office of the Under Secretary of Defense (Comptroller) *Fiscal Year 2016 Instructions for Reporting Costs of War*, base-to-OCO obligations are generally not included in the Cost of War report. The services may include information on the obligation of base-to-OCO funds in the Cost of War report if the services determine the obligations meet the OMB OCO criteria.

**Appendix II: Department of Defense (DOD)
Reporting on Obligation of Overseas
Contingency Operation (OCO) Appropriations**

- \$984 million for the European Reassurance Initiative.⁶

While obligations associated with these non-war appropriations are not included in the Cost of War report, DOD does report these obligations in response to congressional mandates and requests. For example, for fiscal year 2015, DOD separately reported obligations associated with about \$3.3 billion in OCO appropriations—including obligations associated with the Counterterrorism Partnership Fund, European Reassurance Initiative, and military readiness funding included in DOD’s OCO appropriation. DOD did not separately report on obligations associated with about \$4.2 billion in OCO appropriations (see table 3).

Table 3: DOD’s Reporting on Overseas Contingency Operations (OCO) Appropriations for Fiscal Year 2015

Type of Appropriation	Fiscal Year 2015 Appropriation Amount ^a	Percentage of Total Fiscal Year 2015 OCO Appropriations	Fiscal Year 2015 Reporting Requirement and Source
War-Related appropriations	\$53.1 billion	87.7%	Monthly Cost of War report required by Consolidated and Further Continuing Appropriations Act, 2015 (Pub. L. No. 113-235 [Dec. 16, 2014])
Counterterrorism Partnership Fund	1.3 billion	2.1	Monthly report required by Joint Explanatory Statement accompanying the Consolidated and Further Continuing Appropriations Act, 2015 ^b
European Reassurance Initiative	984 million	1.6	Quarterly report required by Joint Explanatory Statement accompanying the Consolidated and Further Continuing Appropriations Act, 2015 ^b
Military readiness funding	1.0 billion	1.7	Reported in separate table in Cost of War report in response to Congressional staff request ^c
Base-to-OCO transfers	2.9 billion	4.8	No separate reporting required ^{de}

⁵The Counterterrorism Partnership Fund is available to provide support and assistance to foreign security forces or other groups or individuals to conduct, support, or facilitate counterterrorism and crisis response activities. The \$1.3 billion for fund activities was directly appropriated by Congress in fiscal year 2015.

⁶The European Reassurance Initiative includes a number of activities and programs design to reassure NATO allies and partners of the continued commitment of the United States to their security and territorial integrity. DOD reported \$984 million in appropriated funds obligated for European Reassurance Initiative activities. This amount is consistent with specific appropriations made in fiscal year 2015 for the European Reassurance Initiative Fund and various OCO military construction projects. Also included in the \$984 million are amounts appropriated to OCO operations and maintenance accounts and obligated for European Reassurance initiative activities as congressionally directed in the explanatory statement accompanying the Consolidated and Further Continuing Appropriations Act, 2015, Pub. L. No. 113-235 (Dec. 16, 2014).

**Appendix II: Department of Defense (DOD)
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Type of Appropriation	Fiscal Year 2015 Appropriation Amount^a	Percentage of Total Fiscal Year 2015 OCO Appropriations	Fiscal Year 2015 Reporting Requirement and Source
National Guard and Reserve equipment	1.2 billion	2.0	No separate reporting required ^e
Medicare Eligible Retiree Healthcare Fund	65 million	0.1	No separate reporting required ^e
Total OCO appropriations	60.5 billion	100	

Source: GAO analysis of DOD data and reporting requirements. | GAO-17-68

Notes: Data exclude classified OCO appropriations. Numbers may not add due to rounding.

^aAppropriated amounts are those reported by DOD in its September 2015 Cost of War report.

^bFor additional information on the obligation of Counterterrorism Partnership Fund and European Reassurance Initiative funds, see [GAO-16-368](#).

^cObligations associated with the OCO military readiness appropriation are reported in a separate table in the Cost of War report, but are not included in DOD's normal Cost of War report tables or data.

^dAccording to Office of the Under Secretary of Defense (Comptroller) Fiscal Year 2016 Instructions for Reporting on the Cost of War, base-to-OCO obligations are generally not included in the Cost of War report. The services may include information on the obligation of base-to-OCO funds in the Cost of War report if the services determine the obligations meet the OMB/Office Secretary of Defense OCO Criteria for War.

^eObligations of these appropriations are not separately reported, but are included along with base obligations in budget justification materials and execution reports.

In addition, officials in the Office of the Under Secretary of Defense (Comptroller) said that DOD includes all OCO obligations in several reports on budget execution, including DOD's internal reports, reports to the OMB, and budget justification materials prepared for Congress. In our August 2016 report on DOD's operation and maintenance appropriations and September 2016 report on its bulk fuel spending, we found that DOD reported a combination of base and OCO obligations in its budget justification materials and execution reports, but did not separately report its base and OCO obligations.⁷ We recommended that DOD separately report base and OCO obligations in its budget justification materials and execution reports or in another reporting mechanism. DOD did not concur with the recommendations. In its comments on our reports, DOD stated

⁷See GAO, *Defense Budget: DOD Needs to Improve Reporting of Operation and Maintenance Base Obligations*, [GAO-16-537](#) (Washington, D.C.: Aug. 16, 2016); and GAO, *Bulk Fuel: Actions Needed to Improve DOD's Fuel Consumption Budget Data*, [GAO-16-644](#) (Washington, D.C.: Sep. 12, 2016).

that many legacy financial systems currently cannot distinguish between base and OCO obligations easily, though DOD would be able to separately report base and OCO obligations across all appropriations once all DOD components have converted from their legacy financial systems.

We have previously found DOD Cost of War data to be of limited reliability and have made recommendations that DOD improve the reliability of financial information in its Cost of War reports.⁸ While DOD has taken steps to improve its cost of war reporting, challenges remain in ensuring the accuracy and reliability of the reported costs. For example, in June 2016, the DOD Inspector General found that the Air Force had underreported \$237.9 million in obligations associated with Operation Inherent Resolve because the service did not have adequate controls over the processing and reporting of its costs.⁹ The obligations underreported included those associated with flying hours; command, control, communications, computer, and intelligence; and general support and administrative equipment. The DOD Inspector General recommended that the Air Force develop and implement standard operating procedures, including operation-specific guidance, to ensure that personnel enter necessary costs into the system used to produce the Cost of War report. The DOD Inspector General further recommended that the Defense Financial Accounting Service and the Air Force update business rules to ensure that Operation Inherent Resolve costs are accurately reported. DOD concurred with these recommendations. In October 2016, DOD officials stated that the Defense Financial Accounting Service and the Air Force had taken steps to address these recommendations. Specifically, DOD stated that formal documentation of new standard operating procedures will be completed by January 2017, and that the business rules for reporting the costs of Operation Inherent Resolve have been updated.

⁸GAO, *Global War on Terrorism: DOD Needs to Take Action to Encourage Fiscal Discipline and Optimize the Use of Tools Intended to Improve GWOT Cost Reporting*, [GAO-08-68](#) (Washington, D.C.: Nov. 6, 2007); and GAO, *Global War on Terrorism: DOD Needs to More Accurately Capture and Report the Costs of Operation Iraqi Freedom and Operation Enduring Freedom*, [GAO-09-302](#) (Washington, D.C.: Mar. 17, 2009).

⁹DOD Inspector General, *Additional Controls Needed to Issue Reliable DOD Cost of War Reports That Accurately Reflect the Status of Air Force Operation Inherent Resolve Funds*, ODIG-2016-102 (June 23, 2016). According to DOD inspector General officials, this is the first of a series of reports on the accuracy and reliability of each of the services' cost of war reporting.

Appendix III: Scope and Methodology

To assess the extent to which the Office of Management and Budget's (OMB) 2010 criteria address the activities included in DOD's OCO budget request, we discussed with each of the military services the processes used for building their budget requests, including any guidance used in determining what should be included in each respective OCO budget request. Additionally, we examined guidance used by the military services and compared the guidance with DOD's fiscal year 2017 budget request for OCO to determine whether activities currently funded by OCO are addressed by the guidance. We also reviewed criteria issued by the OMB as well as budget guidance issued by the Office of the Under Secretary of Defense (Comptroller) and the military services to determine what, if any, direction was issued regarding funding with OCO items not directly tied to contingency operations. We also discussed with officials from the Office of the Under Secretary of Defense (Comptroller) whether the OMB's 2010 OCO guidance was applied in determining whether to fund activities included in DOD's fiscal year 2017 OCO budget request. In addition, we compared the content and timeliness of DOD's and the OMB's guidance to the guidance in the Standards for Internal Control in the Federal Government that relates to implementing control activities through policies and to reviewing policies periodically for continued relevance. Further, we discussed with officials from the OMB and the Under Secretary of Defense (Comptroller) the steps they take to ensure that the OCO budget request is consistent with DOD's and the OMB's OCO guidance, as well as any plans to update it.

To assess whether DOD has developed and reported an estimate of the costs being funded with OCO appropriations that are likely to endure beyond current contingency operations, we reviewed DOD's budget submissions and met with staff from the OMB, the Office of the Under Secretary of Defense (Comptroller), and each of the military services to discuss steps taken to develop and report to Congress or other stakeholders an estimate of enduring OCO costs. We also reviewed information provided by the Army and Navy regarding those OCO costs they deemed to be enduring. In addition, we compared DOD's policies and other guidance documents and officials' related actions to requirements in the FASAB Handbook of Federal Accounting Standards and Other Pronouncements, as Amended, which requires agencies to provide reliable and timely information on the full costs of their federal programs aimed at assisting congressional and executive decision makers in allocating federal resources and making decisions to improve operating economy and efficiency. Further, we compared DOD's policies and actions to the Standards for Internal Control in the Federal

Government, which emphasizes using complete information to make decisions and then to communicate such information externally.

We conducted this performance audit from January 2016 to January 2017 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 IV: Comments from the Department of Defense



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DEC 20 2016

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(Program/Budget)

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U.S. Government Accountability Office
441 G Street, NW
Washington DC 20548

Dear Mr. Pendleton:

This is the Department of Defense (DoD) response to the GAO Draft Report 17-68, "OVERSEAS CONTINGENCY OPERATIONS: OMB and DoD Should Revise the Criteria for Determining Eligible Costs and Identify the Costs Likely to Endure Long Term," dated November 8, 2016 (GAO Code 100431).

The enclosed written response partially concurs with one of the two recommendations included in the report. My point of contact is Ms. Mitzi Mayes who can be reached at (703) 614-8263 or by email at mitzi.l.mayes.civ@mail.mil.

Sincerely,

A handwritten signature in blue ink, appearing to read "M. Dilworth".

Monique L. Dilworth
Director for Operations

Enclosure:
As stated

GAO DRAFT REPORT DATED DECEMBER 2016
GAO-17-68 (GAO CODE 100431)

**“OVERSEAS CONTINGENCY OPERATIONS: OMB and DoD Should Revise the
Criteria for Determining Eligible Costs and Identify the Costs Likely to
Endure Long Term”**

**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), in consultation with the Office of Management and Budget, to reevaluate and revise the criteria for determining what can be included in DOD’s OCO budget requests to reflect current OCO-related activities and relevant budget policy directing in which budget requests OCO funds may be included.

DoD RESPONSE: The Department concurs with the GAO recommendation and plans to propose revised OCO criteria to the Office of Management and Budget that will accommodate the current and evolving threats worldwide, as well as reflect any changes to OCO policy adopted under the new Administration.

RECOMMENDATION 2: The GAO recommends that the Secretary of Defense direct the Under Secretary of Defense (Comptroller) to develop a complete and reliable estimate of DOD’s enduring OCO costs and to report the costs in concert with the department’s future budget requests and use the estimate as a foundation for any future efforts to transition enduring costs to DOD’s base budget.

DoD RESPONSE: DoD partially concurs with the recommendations. Developing reliable estimates of enduring OCO costs is an important first step to any future effort to transition enduring OCO costs to the base budget. In the context of such an effort, the Department would consider developing and reporting formal estimates of those costs. However, until there is sufficient relief from the budgetary caps established in the Budget Control Act of 2011, the Department will need OCO to finance counterterrorism operations, in particular Operation FREEDOM’S SENTINEL and Operation INHERENT RESOLVE.

Appendix V: GAO Contact and Staff Acknowledgments

GAO Contact

John H. Pendleton, (404) 679-1816, or pendletonj@gao.gov

Staff Acknowledgments

In addition to the contact named above, Martin De Alteriis, Rich Geiger, Assistant Director; Amie Lesser, Felicia Lopez, Carol Petersen, Richard Powelson, Daniel Ramsey, Sharon Reid, Susan Tindall, John Van Shaik, and Cheryl Weissman made key contributions to this report.

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