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United States Government Accountability Office
Washington, DC 20548

January 30, 2008

Congressional Committees

Subject: *Global War on Terrorism: Reported Obligations for the Department of Defense*

Since 2001, Congress has provided the Department of Defense (DOD) with hundreds of billions of dollars in supplemental and annual appropriations for military operations in support of the Global War on Terrorism (GWOT).¹ DOD's reported annual obligations² for GWOT have shown a steady increase from about \$0.2 billion in fiscal year 2001 to about \$139.8 billion in fiscal year 2007. In fiscal year 2007, Congress provided DOD with about \$161.8 billion in annual and supplemental appropriations³ for GWOT. To continue its GWOT operations, DOD has requested \$189.3 billion in appropriations for fiscal year 2008. As of December 2007, Congress has provided DOD with about \$86.8 billion for GWOT in fiscal year 2008, including \$16.8 billion for Mine Resistant Ambush Protected vehicles. DOD has reported obligations of about \$23.8 billion for GWOT for fiscal year 2008 through November 2007. The United States' commitments to GWOT will likely involve the continued investment of significant resources, requiring decision makers to consider difficult trade-offs as the nation faces an increasing long-range fiscal challenge. The magnitude of future costs will depend on several direct and indirect cost variables and, in some cases, decisions that have not yet been made. DOD's future costs will likely be affected by the pace and duration of operations, the types of facilities needed to support troops overseas, redeployment plans, and the amount of equipment to be repaired or replaced.⁴

DOD compiles and reports monthly and cumulative incremental obligations incurred to support GWOT in a monthly *Supplemental and Cost of War Execution Report*. DOD

¹After the terrorist attacks of September 11, 2001, the President announced a Global War on Terrorism, requiring the collective instruments of the entire federal government to counter the threat of terrorism. Ongoing military and diplomatic operations overseas, especially in Iraq and Afghanistan, constitute a key part of GWOT. These operations involve a wide variety of activities, such as combating insurgents, training the military forces of other nations, and conducting small-scale reconstruction and humanitarian relief projects.

²According to Department of Defense, *Financial Management Regulation*, 7000.14-R, vol. 1, Definitions (December 2001), p. xvii, obligations are incurred through actions such as orders placed, contracts awarded, services received, or similar transactions made by federal agencies during a given period that will require payments during the same or a future period.

³Of the \$161.8 billion, Congress provided \$67.4 billion in Title IX of the Department of Defense Appropriation Act, 2007 as bridge funding to support ongoing operations early in the fiscal year. Congress provided the remaining \$94.4 billion in the U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Act, 2007.

⁴For more information see GAO, *Securing, Stabilizing, and Rebuilding Iraq: Key Issues for Congressional Oversight*, GAO-07-308SP (Washington, D.C.: Jan. 9, 2007), and *Global War on Terrorism: Observations on Funding, Costs, and Future Commitments*, GAO-06-885T (Washington, D.C.: July 18, 2006).

leadership uses this report, along with other information, to advise Congress on the costs of the war and to formulate future GWOT budget requests. DOD reports these obligations by appropriation, contingency operation,⁵ and military service or defense agency. The monthly cost reports are typically compiled in the 45 days after the end of the reporting month in which the obligations are incurred.⁶ DOD has prepared monthly reports on the obligations incurred for its involvement in GWOT since fiscal year 2001.

Section 1221 of the National Defense Authorization Act for Fiscal Year 2006⁷ requires us to submit quarterly updates to Congress on the costs of Operation Iraqi Freedom and Operation Enduring Freedom based on DOD's monthly *Supplemental and Cost of War Execution Reports*. This report, which responds to this requirement, contains our analysis of DOD's reported obligations for military operations in support of GWOT through September 2007. Specifically, we assessed (1) DOD's appropriations and reported obligations for military operations in support of GWOT through fiscal year 2007 and (2) DOD's fiscal year 2007 reported obligations for GWOT by military service and appropriation account.

Scope and Methodology

To conduct our work, we analyzed applicable annual and supplemental appropriations from fiscal year 2001 through fiscal year 2007 and DOD's monthly *Supplemental and Cost of War Execution Reports* from September 2001 to September 2007. Specifically, we identified appropriated amounts intended for GWOT and reported GWOT obligations for each operation, military service, and appropriation account. Our prior work⁸ has found the data in DOD's monthly *Supplemental and Cost of War Execution Report* to be of questionable reliability. Consequently, we are unable to ensure that DOD's reported obligations for GWOT are complete, reliable, and accurate, and they therefore should be considered approximations.

DOD is taking steps to improve GWOT cost reporting. Specifically, over the years, we have made a series of recommendations to the Secretary of Defense intended to improve the transparency and reliability of DOD's GWOT obligations. For example we have recommended that DOD (1) revise the cost reporting guidance so that large amounts of reported obligations are not shown in "other" miscellaneous categories and (2) take steps to ensure that reported GWOT obligations are reliable. In response, DOD has modified its guidance to more clearly define some of the cost categories and is taking additional steps to strengthen the oversight and program management of the cost reporting. Specifically, DOD has taken steps to improve transparency by requiring components to analyze variances in reported obligations and to disclose reasons for significant changes, and to affirm that monthly reported GWOT obligations provide a fair representation of ongoing activities. We

⁵DOD defines contingency operations to include small, medium, and large-scale campaign-level military operations, including support for peacekeeping operations, major humanitarian assistance efforts, noncombatant evacuation operations, and international disaster relief efforts.

⁶DOD, *Financial Management Regulation*, 7000.14-R, vol. 12, ch. 23. This regulation generally establishes financial policy and procedures related to DOD contingency operations. Vol. 6A, ch. 2, and vol. 3, ch. 8, of the DOD *Financial Management Regulation* also include provisions to ensure the accuracy of cost reporting.

⁷Pub. L. No. 109-163, § 1221(c) (2006).

⁸For more information see GAO, *Global War on Terrorism: DOD Needs to Improve the Reliability of Cost Data and Provide Additional Guidance to Control Costs*, GAO-05-882 (Washington, D.C.: Sept. 21, 2005) and *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).

have, however, found that some required explanations were not disclosed and DOD's methodology did not always identify obligations omitted from cost reports and, in some cases, DOD components did not provide required affirmation statements to attest to accuracy.⁹ DOD is now developing additional procedures to ensure compliance with the variance analysis and affirmation statements policies. Until all DOD's efforts are more fully implemented, it is too soon to know the extent to which these changes will improve the reliability of DOD's cost reporting. While establishing sound cost reporting procedures and oversight is clearly important, the reliability of the cost-of-war reports is also dependent on the quality of DOD's accounting data. Factors contributing to DOD's challenges in reporting reliable cost data include long-standing deficiencies in DOD's financial management systems. We are aware that DOD has efforts underway to improve these systems as well.

We have also made recommendations to improve transparency and fiscal responsibility related to funding the war on terrorism, and to permit Congress and the administration to establish priorities and make trade-offs among those priorities in defense funding. Specifically, we recommended that DOD (1) issue guidance defining what constitutes the "longer war against terror," identify what costs are related to that longer war, and build these costs into the base defense budget; (2) identify incremental costs of the ongoing GWOT operations that can be moved into the base budget; and (3) in consultation with the Office of Management and Budget consider limiting emergency funding requests to truly unforeseen or sudden events. We will continue to review DOD's efforts to implement these recommendations as part of our follow-up work on GWOT.

We are beginning to review DOD's fiscal year 2008 funding and reported obligations, including the reliability of the reported obligations. We are also beginning a review of the process, including models and other tools, used to estimate GWOT funding requirements. We plan to report on this work later this year.

We conducted this performance audit from November 2007 to January 2008, 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.

Summary

From fiscal year 2001 through fiscal year 2007, Congress has provided DOD with about \$542.9 billion for its efforts in support of GWOT.¹⁰ DOD has reported obligations of about \$492.2 billion for military operations in support of the war from fiscal years 2001 through 2007. The \$50.7 billion difference¹¹ between DOD's GWOT appropriations and reported

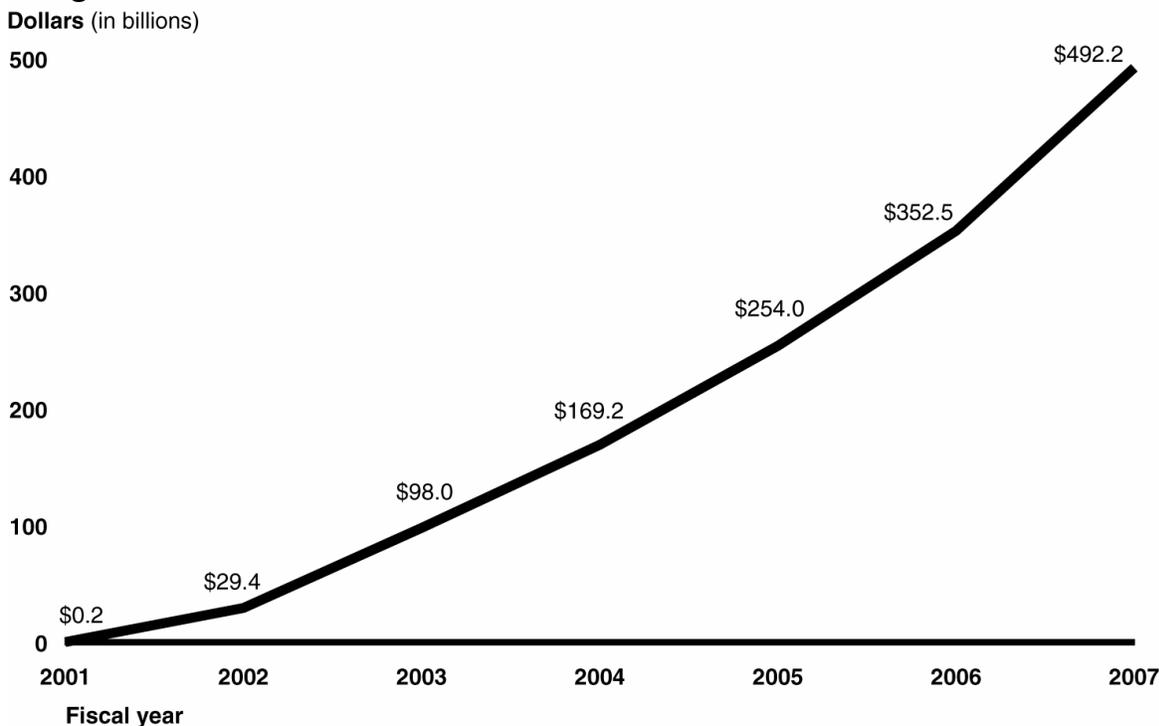
⁹GAO-08-68.

¹⁰From fiscal year 2001 through fiscal year 2004, military operations in defense of the homeland (Operation Noble Eagle) were funded through supplemental appropriations. Since fiscal year 2005, these operations have been funded through DOD's base budget. Because Congress does not appropriate funds by military operation, these amounts cannot be separately identified. Therefore, the \$542.9 billion includes funding for Operation Noble Eagle only from fiscal years 2001 through 2004.

¹¹We calculated this difference by comparing available data on appropriations and reported obligations. Since data on appropriations for Operation Noble Eagle from fiscal year 2005 through fiscal year 2007 is unavailable, the difference between DOD's GWOT appropriations and reported obligations may be larger.

obligations can generally be attributed to multiyear funding for procurement; military construction; and research, development, test, and evaluation from previous GWOT-related appropriations¹² that have yet to be obligated, and obligations for classified activities, which are not included in DOD's reported obligations. DOD's total reported obligations related to GWOT have demonstrated a steady annual increase each fiscal year through 2007. Figure 1 shows DOD's cumulative reported GWOT obligations from fiscal year 2001 through fiscal year 2007.

Figure 1: DOD's Cumulative Reported GWOT Obligations for Fiscal Years 2001 through 2007



Source: GAO analysis of DOD data.

Note: Reported GWOT obligations include Operation Noble Eagle, Operation Enduring Freedom, and Operation Iraqi Freedom, and generally reflect costs reported in DOD's cost-of-war reports. However, the fiscal year 2002 and 2003 figures include about \$20.1 billion that, according to DOD officials, was not reported in DOD's cost-of-war reports. GAO has assessed the reliability of DOD's obligation data and found significant problems, such that these data may not accurately reflect the true dollar value of GWOT obligations.

DOD's reported obligations of about \$139.8 billion in fiscal year 2007 were approximately 1.4 times higher than reported GWOT obligations of about \$98.4 billion for fiscal year 2006. The higher reported obligations in fiscal year 2007 are largely due to costs associated with Operation Iraqi Freedom, in part due to the surge strategy announced in January 2007, which provided for the deployment of additional troops. Also adding to the increased fiscal year 2007 obligations is DOD's need to repair or replace equipment after several years of ongoing operations. Harsh combat and environmental conditions in-theater over sustained periods of time exacerbates equipment repair, replacement, and modernization problems that existed before the onset of combat operations in Iraq and Afghanistan. Consequently, obligations for procurement, which include aircraft, munitions, vehicles, communications,

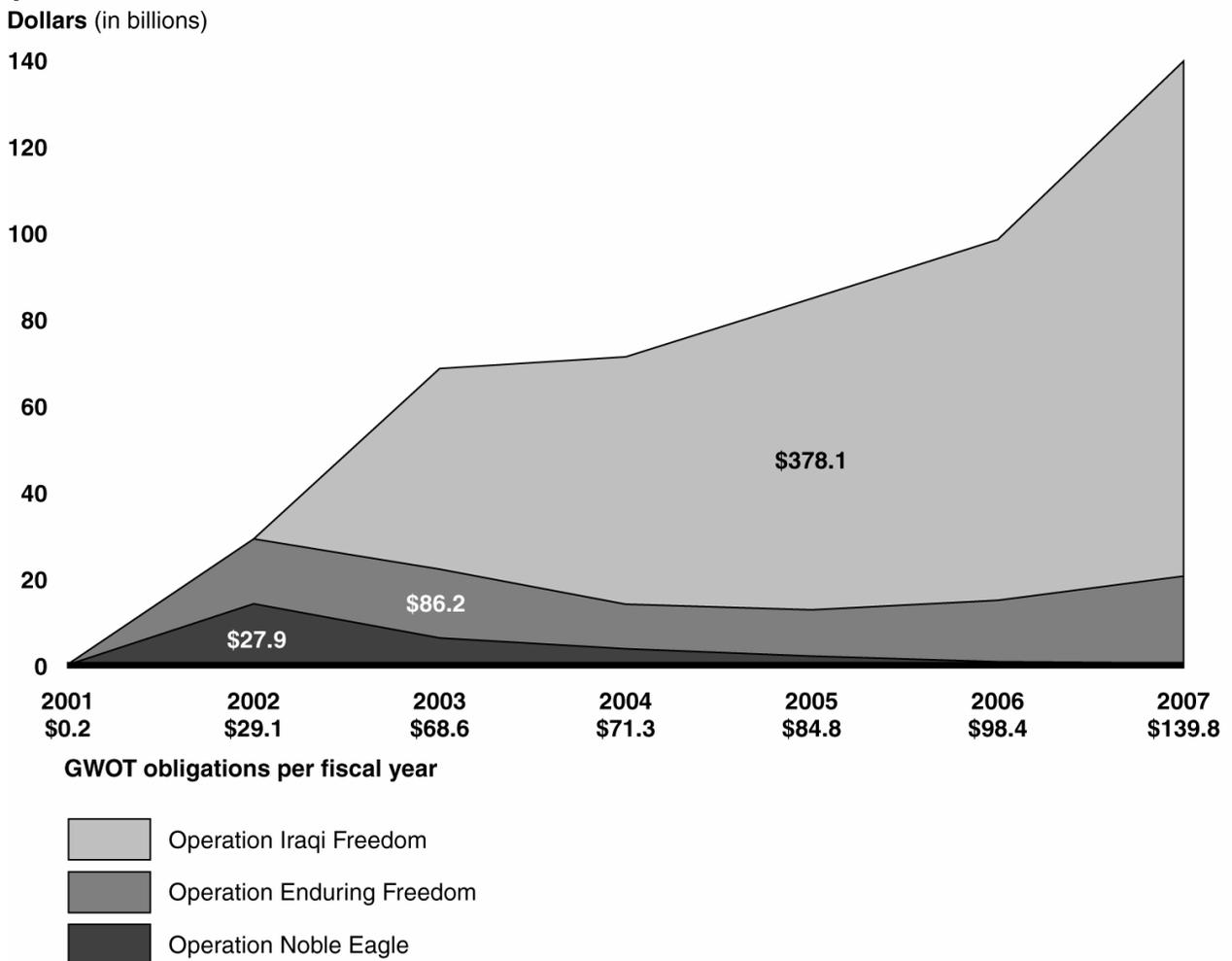
¹²Appropriations for military personnel and operation and maintenance are usually available for 1 year, while appropriations for research, development, test and evaluation are usually available for 2 years; procurement funds (with the exception of shipbuilding funds, which are sometimes longer) are usually available for 3 years; and military construction funds are usually available for 5 years.

and electronics equipment, account for nearly a quarter of reported obligations—about \$35.8 billion for fiscal year 2007, which is approximately two and a half times higher than reported obligations for procurement during fiscal year 2006.

DOD’s reported obligations through fiscal year 2007 include about \$378.1 billion for operations in and around Iraq as part of Operation Iraqi Freedom, and about \$86.2 billion for operations in Afghanistan, the Horn of Africa, the Philippines, and elsewhere as part of Operation Enduring Freedom. It also includes about \$27.9 billion for operations in defense of the homeland as part of Operation Noble Eagle.

Reported obligations associated with Operation Iraqi Freedom continue to be far higher than those for other GWOT operations in fiscal year 2007. As figure 2 shows, from fiscal years 2003 through 2007, DOD’s reported obligations for Operation Iraqi Freedom consistently increased each fiscal year. In contrast, DOD’s reported obligations for Operation Noble Eagle have consistently decreased since fiscal year 2003, while those for Operation Enduring Freedom have remained within a range of \$10.3 billion to \$20.1 billion each fiscal year.

Figure 2: DOD’s Reported GWOT Obligations for Fiscal Years 2001 through 2007 by Operation



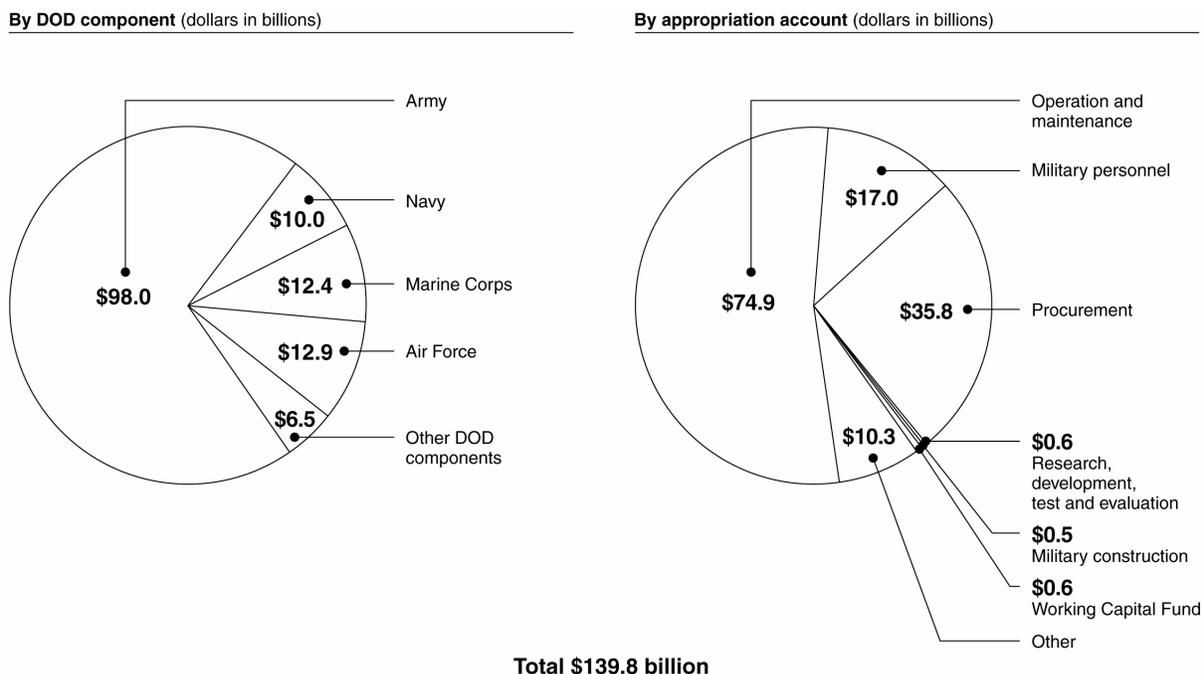
Source: GAO analysis of DOD data.

Note: Operation Iraqi Freedom began in fiscal year 2003; therefore no obligations were reported in fiscal years 2001 and 2002 for this operation. Reported GWOT obligations generally reflect costs reported in DOD's cost-of-war reports. However, the fiscal year 2002 and 2003 figures include about \$20.1 billion that, according to DOD officials, was not reported in DOD's cost-of-war reports. GAO has assessed the reliability of DOD's obligation data and found significant problems, such that these data may not accurately reflect the true dollar value of GWOT obligations.

DOD's reported obligations for fiscal year 2007 totaled \$139.8 billion. The Army accounts for the largest proportion of reported obligations for fiscal year 2007—about \$98.0 billion, nearly eight times higher than the almost \$12.9 billion in obligations reported for the Air Force, the military service with the next greatest reported amount. While the total reported obligations for fiscal year 2007 increased by about 40 percent over fiscal year 2006, reported obligations for the Navy increased by 60 percent and reported obligations for the Marine Corps increased by almost 75 percent.

Among appropriation accounts, operation and maintenance, which include items such as support for housing, food, and services; the repair of equipment; and transportation to move people, supplies, and equipment, accounts for the largest reported obligations—about \$74.9 billion. Reported obligations for procurement account for about a quarter of total reported obligations or about \$35.8 billion. Of the \$43.6 billion provided to DOD for procurement in fiscal year 2007, approximately 34 percent or \$14.3 billion, remained available for use in fiscal year 2008. Figure 3 shows DOD's reported obligations for fiscal year 2007 by military service and appropriation account.

Figure 3: DOD's Reported GWOT Obligations for Fiscal Year 2007, by DOD Component and Appropriation Account



Source: GAO analysis of DOD data.

Note: GAO has assessed the reliability of DOD's obligation data and found significant problems, such that these data may not accurately reflect the true dollar value of GWOT obligations. Obligation figures may not add to \$139.8 billion because of rounding.

Agency Comments and Our Evaluation

In written comments on a draft of this report, DOD noted it continues to take actions to implement the intent of our prior recommendations. Specifically, DOD stated that efforts are underway to identify and correct the problem of missing affirmations and variance analysis explanations in its cost reporting. DOD stated that these controls are internal administrative requirements applicable to the overall management and understanding of the content of cost reports submitted by each Component. Further, it stated that the lack of an affirmation statement or explanation does not indicate the information reported is not reliable or lacks credibility and, accordingly, identifying missing affirmations and variance explanations in published reports could mislead readers to believe the reports are inaccurate or less reliable. We agree that DOD has taken steps to improve cost reporting, which we acknowledge in our report. We also note DOD is now developing additional procedures to ensure compliance with the variance analysis and affirmation statement policies, but is only beginning to implement many of these efforts. We continue to believe that users of the reports should have sufficient information to assess the reliability of reported cost information, including information about affirmations and variance explanations. DOD also stated it is focused on validating the reliability of the current reporting process and making improvements. As stated in our report, we recognize DOD's efforts. However, until all DOD's efforts are more fully implemented, it is too soon to know the extent to which these changes will improve DOD's cost reporting. Therefore, users of DOD's reported cost information need to continue to exercise caution in interpreting the data and should consider DOD's reported GWOT obligations as approximations.

DOD further commented on our prior recommendation related to funding for the war on terrorism. Specifically, DOD stated that while we continue to recommend that the incremental costs of ongoing operations be built into the base defense budget, Congress has not yet appropriated funds to cover all of DOD's fiscal year 2008 GWOT costs, the majority of which was requested concurrent with the fiscal year 2008 President's budget request. It further stated that it is the Office of Management and Budget, not DOD, that determines what amounts in DOD's budget request will be recommended for designation by the President as emergency requirements. We recognize Congress appropriated some funding to cover DOD's fiscal year 2008 GWOT costs; however, we note that GWOT funds were not requested as part of DOD's base defense budget but as a distinct emergency request. We continue to believe that DOD could identify additional incremental GWOT needs that could be moved into the base budget, which would assist the Congress in evaluating priorities and making tradeoffs among all funding needs. We recognize the role of the Office of Management and Budget concerning the use of emergency funding requests and, as we have previously recommended, encourage the department, in consultation with the Office of Management and Budget, to consider limiting emergency funding requests to truly unforeseen or sudden events. DOD's comments are included in enclosure I in this report.

We are sending copies of this report to interested congressional committees; the Secretary of Defense; the Under Secretary of Defense (Comptroller); and the Director, Office of Management and Budget. Copies of this report will also be made available to others upon request. In addition, this report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-9619 or pickups@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 enclosure II.

A handwritten signature in black ink that reads "Sharon L. Pickup". The signature is written in a cursive, flowing style.

Sharon Pickup
Director, Defense Capabilities and Management

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Comments from the Department of Defense



COMPTROLLER

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JAN 28 2008

Ms. Sharon Pickup
Director, Defense Capabilities and Management
U.S. Government Accountability Office
Washington, DC 20548

Dear Ms. Pickup:

This is the Department of Defense (DoD) response to the Government Accountability Office (GAO) Draft Report GAO-08-423R, "GLOBAL WAR ON TERRORISM: Reported Obligations for the Department of Defense," dated January 17, 2008 (GAO Code 351133).

The Department continues to take actions to implement the intent of GAO's recommendations. Efforts are underway to identify and correct the problem of missing affirmations and variance analysis explanations. The Department would like to emphasize that these controls are internal administrative requirements applicable to the overall management and understanding of the Cost of War (CoW) report content submitted by each Component. The lack of an affirmation statement or explanation does not indicate the information reported is not reliable or lacks credibility. Accordingly, identifying missing affirmations and variance explanations in published reports could mislead readers to believe the reports are inaccurate or less reliable.

The Department is focused on validating the reliability of the current reporting process and making improvements. The underlying controls in capturing the Global War on Terror (GWOT) data at the various sources and reporting the consolidated balances in the monthly CoW reports are key to producing reliable and credible information. Preliminary results of the ongoing transaction sampling, allocation methodology reviews, and improvement actions demonstrate the balances and reporting process are generally reliable.

The Department notes that while the GAO continues to recommend that incremental costs of ongoing operations be built into the base defense budget, the Congress has not yet appropriated \$102.5 billion for the FY 2008 GWOT costs, the majority of which was requested concurrent with the FY 2008 President's Budget request. In addition, the Department notes that it is the Office of Management and Budget, not

DoD, who determines what amounts included within the budget request will be recommended for designation by the President as emergency requirements.

Sincerely,


J. David Patterson
Principal Deputy

GAO Contact and Staff Acknowledgments

GAO Contact Sharon Pickup, (202) 512-9619 or pickups@gao.gov

Acknowledgments In addition to the contact listed above, Ann Borseth, Assistant Director; Richard Geiger; Ron La Due Lake; Deanna Laufer; and Lonnie McAllister made key contributions to this report.

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