

March 2009

# GLOBAL WAR ON TERRORISM

## DOD Needs to More Accurately Capture and Report the Costs of Operation Iraqi Freedom and Operation Enduring Freedom



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# Report Documentation Page

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Highlights of [GAO-09-302](#), a report to congressional committees

## Why GAO Did This Study

Since September 11, 2001, Congress has provided about \$808 billion to the Department of Defense (DOD) for the Global War on Terrorism (GWOT) in addition to funding in DOD's base budget. Prior GAO reports have found DOD's reported GWOT cost data unreliable and found problems with transparency over certain costs. In response, DOD has made several changes to its cost-reporting procedures.

Congress has shown interest in increasing the transparency of DOD's cost reporting and funding requests for GWOT. Under the Comptroller General's authority to conduct evaluations on his own initiative, GAO assessed (1) DOD's progress in improving the accuracy and reliability of its GWOT cost reporting, and (2) DOD's methodology for reporting GWOT costs by contingency operation.

For this engagement, GAO analyzed GWOT cost data and applicable guidance, as well as DOD's corrective actions.

## What GAO Recommends

GAO is recommending that DOD (1) establish a methodology for determining what portion of GWOT costs is attributable to Operation Iraqi Freedom versus Operation Enduring Freedom and (2) develop a plan and timetable for evaluating whether certain expenses are incremental and should continue to be funded outside of DOD's base budget. DOD agreed with the first recommendation and partially agreed with the second.

To view the full product, including the scope and methodology, click on [GAO-09-302](#). For more information, contact Sharon Pickup, (202) 512-9619, [pickups@gao.gov](mailto:pickups@gao.gov).

# GLOBAL WAR ON TERRORISM

## DOD Needs to More Accurately Capture and Report the Costs of Operation Iraqi Freedom and Operation Enduring Freedom

### What GAO Found

While DOD and the military services continue to take steps to improve the accuracy and reliability of some aspects of GWOT cost reporting, DOD lacks a sound approach for identifying costs of specific contingency operations, raising concerns about the reliability of reported information, especially on the cost of Operation Iraqi Freedom. Specifically, the department has undertaken initiatives such as requiring components to sample and validate their GWOT cost transactions and launching a new contingency cost-reporting system that will automate the collection of GWOT cost data from components' accounting systems and produce a new report comparing reported obligations and disbursements to GWOT appropriations data. Also, the military services have taken several steps to correct weaknesses in the reliability of their cost data.

Limitations in DOD's approach to identifying the costs of Operation Iraqi Freedom and Operation Enduring Freedom may, in some cases, result in the overstatement of costs, and could lead to these costs being included in DOD's GWOT funding requests rather than the base budget. DOD guidance emphasizes the importance of accurately reporting the cost of contingency operations. However, while the Army and Marine Corps are capturing totals for procurement and certain operation and maintenance costs, they do not have a methodology for determining what portion of these GWOT costs are attributable to Operation Iraqi Freedom versus Operation Enduring Freedom and have reported all these costs as attributable to Operation Iraqi Freedom. In addition, the military services have reported some costs, such as those for Navy forward-presence missions, as part of Operation Iraqi Freedom or Operation Enduring Freedom, even though they are not directly attributable to either operation. In September 2005, DOD expanded the definition of incremental costs for large-scale contingencies, such as those for GWOT, to include expenses beyond direct incremental costs. This expanded definition provides no guidance on what costs beyond those attributable to the operation can be considered incremental and reported. Consequently, the military services have made their own interpretations as to whether and how to include costs not directly attributable to GWOT contingency operations. Without a methodology for determining what portion of GWOT costs is attributable to Operation Iraqi Freedom or Operation Enduring Freedom, reported costs for Operation Iraqi Freedom may be overstated. Furthermore, unless DOD reconsiders whether expenses not directly attributable to specific GWOT operations should be included as incremental costs, the military services may continue to include these expenses as part of Operation Iraqi Freedom and Operation Enduring Freedom, reported costs for both operations may be overstated, and DOD may continue to request funding for these expenses in GWOT funding requests instead of including them as part of the base budget. Expenses beyond those directly attributable to either operation may be more reflective of the enduring nature of GWOT and its cost implications should be part of the annual budget debate.

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## Abbreviations

DFAS	Defense Finance and Accounting Service
DOD	Department of Defense
GWOT	Global War on Terrorism

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United States Government Accountability Office  
Washington, DC 20548

March 17, 2009

### Congressional Committees

Since the September 11, 2001, terrorist attacks, the Department of Defense (DOD) has been engaged in domestic and overseas military operations in support of the Global War on Terrorism (GWOT) around the world. These operations include Operation Noble Eagle aimed at defending the United States homeland against terrorist attacks; Operation Enduring Freedom that takes place principally in and around Afghanistan, but also covers additional operations in the Horn of Africa, the Philippines, and elsewhere; and Operation Iraqi Freedom that focuses principally on Iraq. Congress has provided about \$808 billion in supplemental and annual appropriations for GWOT since 2001, and DOD has reported total GWOT costs of about \$654.7 billion as of September 2008. For fiscal year 2009, Congress has provided DOD with about \$65.9 billion for GWOT as of March 2009, and DOD plans on requesting an additional \$75.5 billion for GWOT for the remainder of the fiscal year. This is in addition to about \$512.7 billion already provided in DOD's base budget for other functions. Obtaining an accurate picture of DOD costs is of critical importance given the need to evaluate trade-offs and make more effective use of defense dollars in light of the nation's long-term fiscal challenge and the current financial crisis. In the past, we have reported on the need for DOD to become more disciplined in its approach to developing plans and budgets, including building more GWOT costs into the base defense budget.

To meet internal and legislative reporting requirements, DOD compiles GWOT cost data and prepares various reports that itemize these costs by appropriation account, military service or defense agency, and contingency operation.<sup>1</sup> DOD uses these cost data, along with other information, internally to evaluate cost trends and formulate GWOT funding requests, and externally to inform Congress on the costs of the war. Congress uses DOD's historical cost data to monitor costs, evaluate funding needs, and to make GWOT-related funding decisions. Over time, DOD's approach to reporting costs and requesting funds for GWOT

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<sup>1</sup>The DOD *Financial Management Regulation*, 7000.14-R, vol. 12, ch. 23, sec. 230101 (September 2007) defines contingency operations as 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.

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contingency operations has evolved. Since GWOT contingency operations began in 2001, DOD has used existing financial-management guidance, designed for small-scale contingency operations, to establish policies and procedures for estimating the budget and reporting costs. In 2005, DOD amended this guidance to include large-scale contingency operations, like those in support of GWOT. In contrast to the guidance for small-scale contingency operations, the amended guidance for large-scale contingencies allows DOD components to include expenses in their cost reporting beyond direct incremental costs, but provides no guidance on what costs beyond those attributable to the operation can be considered incremental and reported. Incremental costs are defined as additional costs to DOD components that would not have been incurred had the contingency operation not been supported.<sup>2</sup> DOD has also revised its guidance for building GWOT funding requests, beginning with its fiscal year 2007 supplemental funding request, directing DOD components to include funding needs related to what it characterized as the “longer war on terror,” or costs beyond those directly attributable to Operation Enduring Freedom and Operation Iraqi Freedom.<sup>3</sup> DOD’s previous guidance for building GWOT funding requests directed components to request funding only for the incremental costs above base-budget funding needed to support specific forces and capabilities required to execute Operation Enduring Freedom and Operation Iraqi Freedom during the fiscal year.<sup>4</sup>

Over the years, we have reported on the need to improve the accuracy and reliability of DOD’s cost reporting and transparency of funding requests for GWOT, and have made a series of recommendations to the Secretary of Defense. For example, we previously identified inaccuracies in reported costs for GWOT, and noted the lack of a systematic process and sufficient management oversight to ensure GWOT cost data are accurately recorded. DOD has implemented many of our recommendations, and continues to focus greater management attention to improve GWOT cost reporting.

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<sup>2</sup>DOD, *Financial Management Regulation*, 7000.14-R, vol. 12, ch. 23, secs. 230406, 230902, and 231403A (September 2007) provide additional information on incremental costs.

<sup>3</sup>Deputy Secretary of Defense Memorandum, *Ground Rules and Process for the FY ‘07 Spring Supplemental* (Oct. 25, 2006). Although DOD did not define the “longer war against terror,” it stated that these costs could include reconstitution or reset costs for combat losses, accelerated wear and necessary repairs to damaged equipment or replacement with newer models, and costs to accelerate specific force capability.

<sup>4</sup>In fiscal year 2005, DOD began requesting funding for Operation Noble Eagle in its base budget request.

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More recently, we reported on the lack of transparency of DOD's funding requests for GWOT, raising concerns over DOD's expansion of allowable incremental costs to include costs for longer-term items. Specifically, in November 2007, we reported that changes in DOD's funding guidance resulted in billions of dollars being added to DOD's GWOT funding requests for the "longer war against terror," making it difficult to distinguish between the incremental costs to support specific contingency operations and longer-term costs typically associated with DOD's base budget.<sup>5</sup> We recommended that DOD 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. Although DOD agreed with our recommendations to some extent, as of March 2009, it has not yet taken specific action.

In the past few years, Congress has shown interest in increasing the transparency of DOD's cost reporting and funding requests for GWOT, particularly in the amount of detail available on the costs of specific contingency operations. In fiscal year 2006, Congress required DOD to submit reports of war-related procurement, equipment maintenance, and infrastructure costs by contingency operation.<sup>6</sup> In fiscal year 2007, Congress required the President, for each fiscal year thereafter, to submit full-year estimates of all funds required to support GWOT along with its annual budget submission.<sup>7</sup> More recently, in the Duncan Hunter National Defense Authorization Act for Fiscal Year 2009, Congress required that in any future annual or supplemental budget request, DOD separately display any funding requested for military operations in Afghanistan and military operations in Iraq, and provide a detailed description of the assumptions underlying this funding request for each operation.<sup>8</sup>

Ensuring reliability and transparency in DOD's cost reporting will be important as the new administration and Congress evaluate DOD's funding needs for GWOT in fiscal year 2009 and beyond. To assist Congress in its oversight role, we assessed (1) DOD's progress in improving the accuracy

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<sup>5</sup>GAO, *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).

<sup>6</sup>Pub. L. No. 109-163, § 1221 (2006).

<sup>7</sup>Pub. L. No. 109-364, § 1008 (2006).

<sup>8</sup>Pub. L. No. 110-417, § 1502 (2008).

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and reliability of its GWOT cost reporting, and (2) DOD's methodology for reporting GWOT costs by contingency operation, including the types of costs reported for those operations. We prepared this report under the Comptroller General's authority to conduct evaluations on his own initiative.

To assess DOD's progress in improving the accuracy and reliability of its GWOT cost reporting, we analyzed information reported in DOD's monthly *Supplemental and Cost of War Execution Report* (cost-of-war report)<sup>9</sup> and cost data in the military services' individual accounting systems. We then obtained and reviewed guidance issued by DOD and the military services regarding data analysis and methods for reporting costs for GWOT. We also interviewed key officials from the Office of the Under Secretary of Defense (Comptroller), the Defense Finance and Accounting Service (DFAS), the Army, Navy, Marine Corps, and Air Force to obtain information about specific processes and procedures DOD and the military services have undertaken to improve the accuracy and reliability of reported GWOT cost information. To assess DOD's methodology for reporting GWOT costs by contingency operation, including the types of costs reported for those operations, we analyzed GWOT cost data in DOD's monthly cost-of-war reports, including the source data for those reports in the military services' individual accounting systems. We then obtained and reviewed guidance issued by DOD and the military services for identifying and reporting GWOT costs by contingency operation. We also interviewed officials from the Under Secretary of Defense (Comptroller), Army, Navy, Marine Corps, and Air Force to determine how they interpreted and implemented this guidance. As previously reported, we found the data in DOD's cost-of-war reports to be of questionable reliability. Consequently, we are unable to ensure that DOD's reported costs for GWOT are complete, reliable, and accurate, and they should therefore be considered approximations. Further details about our scope and methodology can be found in appendix I.

We performed our work from January 2008 through March 2009 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

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<sup>9</sup>This report identifies monthly and cumulative incremental GWOT costs for the current fiscal year by appropriation, contingency operation, and military service or defense agency.

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obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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## Results in Brief

While DOD and the military services continue to take steps to improve the accuracy and reliability of some aspects of GWOT cost reporting, DOD lacks a sound approach for identifying costs of specific contingency operations, raising concerns about the reliability of reported information, especially on the cost of Operation Iraqi Freedom. The department has undertaken several initiatives to improve the accuracy and reliability of its GWOT cost data. For example, in February 2008, DOD began requiring its components to statistically sample and validate their fiscal year 2008 GWOT cost transactions on a quarterly basis, beginning with the first quarter of fiscal year 2008. According to DOD officials, the new procedures have enabled components to find errors and take corrective action, thereby improving the reliability of reported cost data. In addition, in October 2008, DOD launched a new contingency cost reporting system called the Contingency Operations Reporting and Analysis System, which automates the collection of elements of GWOT cost data from components' accounting systems and generates a new monthly report comparing reported obligations and disbursements to GWOT appropriations data. The military services have also taken steps to correct weaknesses in the reliability of their GWOT cost data. For instance, during the course of our work, we found the Army was misusing internal cost codes to track and report costs for GWOT contingency operations. The Army has addressed these issues for fiscal year 2009 by revising its cost-code structure and eliminating cost codes that commands have misused in the past. Because efforts to implement some of these initiatives are still in the early stages, their effect on the reliability of GWOT cost reporting is uncertain.

While DOD has reported significant costs for Operation Iraqi Freedom and Operation Enduring Freedom, limitations in its approach for identifying the costs of these operations may, in some cases, result in the overstatement of costs, and could lead to these costs being included in DOD's GWOT funding requests rather than the base budget. The DOD *Financial Management Regulation* emphasizes the importance of accurately reporting the cost of contingency operations. Furthermore, it states that actual costs should be reported, but when actual costs are not available, DOD components are required to establish and document an auditable methodology for capturing costs. As of September 2008, DOD had reported costs of about \$508.4 billion for Operation Iraqi Freedom and about \$118.2 billion for Operation Enduring Freedom. However, we found that reported costs for Operation Iraqi Freedom may be overstated due to

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weaknesses in DOD's methodology for reporting its GWOT costs by contingency operation. While the Army and Marine Corps capture totals for procurement and certain operation and maintenance costs, they do not have a methodology for determining what portion of these GWOT costs are attributable to Operation Iraqi Freedom versus Operation Enduring Freedom. Rather, they reported all these costs as attributable to Operation Iraqi Freedom. In addition, the military services have reported some costs, such as those for Navy forward-presence missions, as part of Operation Iraqi Freedom or Operation Enduring Freedom even though they are not directly attributable to either operation. In September 2005, DOD expanded the definition of incremental costs for large-scale contingencies, such as those conducted as part of GWOT, to include expenses beyond direct incremental costs. As we reported in 2005,<sup>10</sup> this expanded definition is problematic because it provides no guidance on what costs beyond those attributable to the operation can be considered incremental and reported. In the absence of additional guidance, the military services have made their own interpretations or determinations as to whether and how to include costs not directly attributable to GWOT contingency operations, and those criteria vary. For example, in fiscal year 2008 the Marine Corps reported about \$1.4 billion in costs for procurement and operation and maintenance for an initiative to increase the overall end strength of the Marine Corps as part of Operation Iraqi Freedom, while the Air Force included about \$464 million in "long war/reconstitution" operation and maintenance costs as part of Operation Iraqi Freedom. Without a methodology for determining what portion of total GWOT costs is attributable to Operation Iraqi Freedom or Operation Enduring Freedom, reported costs for Operating Iraqi Freedom may be overstated. Furthermore, we continue to believe that unless DOD reconsiders whether expenses not directly attributable to specific GWOT contingency operations should be included as incremental costs, the military services may continue to include these expenses as part of Operation Iraqi Freedom and Operation Enduring Freedom, and reported costs for both operations may be overstated. In addition, DOD may continue to request funding for these expenses as part of these operations instead of building that funding into the base budget.

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<sup>10</sup>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).

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To improve the transparency and reliability of DOD's reported obligations for GWOT by contingency operation, we recommend that the Secretary of Defense direct the Under Secretary of Defense (Comptroller) to (1) ensure DOD components establish an auditable and documented methodology for determining what portion of GWOT costs is attributable to Operation Iraqi Freedom versus Operation Enduring Freedom when actual costs are not available, and (2) develop a plan and timetable for evaluating whether expenses not directly attributable to specific GWOT contingency operations are incremental costs and should continue to be funded outside of DOD's base budget. DOD agreed with the first recommendation and partially agreed with the second.

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## Background

DOD contingency operations, such as those in support of GWOT, can 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. Volume 12, chapter 23 of the DOD *Financial Management Regulation*, 7000.14-R establishes financial policies and procedures for contingency operations and generally guides the DOD components' spending by defining what constitutes incremental costs and by providing examples of eligible incremental costs.<sup>11</sup> The costs incurred for contingency operations include the pay of mobilized reservists, as well as the special pays and allowances for deployed personnel,<sup>12</sup> such as imminent danger pay and foreign duty pay; the cost of transporting personnel and materiel to the theater of operation and supporting them upon arrival; and the operational cost of equipment such as vehicles and aircraft, among many other costs. Costs that are incurred regardless of whether there is a contingency operation, such as the base pay of active duty military personnel, are not considered incremental and therefore are funded in DOD's base budget.

DOD reports its GWOT-related costs in terms of obligations, which are incurred through actions such as orders placed, contracts awarded,

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<sup>11</sup>DOD refers to the military operations in support of GWOT as contingency operations, although vol. 12, ch. 23 of the DOD *Financial Management Regulation*, 7000.14-R specifically states that the regulation does not address wartime activities. Nonetheless, DOD and military service officials use this regulation to guide GWOT budgeting, cost reporting, and spending.

<sup>12</sup>Servicemembers who are assigned, deployed, or traveling on temporary duty to certain foreign areas are eligible for certain special pays and benefits, such as imminent danger pay. 37 U.S.C. § 310 (a) (2) (D).

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services received, or similar transactions. When obligations are incurred, the DOD components enter them into their individual accounting systems. An obligation entry may include a number of different identifiers, including information such as funding source and the contingency operation, and the category of cost as determined by the individual component. Volume 12, chapter 23 of the DOD Financial Management Regulation directs components to capture contingency costs within their existing accounting systems and at the lowest possible level of organization.<sup>13</sup> Individual obligation data that are coded as being in support of GWOT are recorded and sent through the component's chain of command where they are aggregated at successively higher command levels.

In a series of reports,<sup>14</sup> we have identified numerous problems in DOD's processes for recording and reporting obligations, raising significant concerns about the overall reliability of DOD's reported obligations. In addition, DOD's financial management has been on GAO's list of high-risk areas requiring urgent attention and transformation since 1995. Factors affecting the reliability of DOD's reported obligations include long-standing deficiencies in hundreds of nonintegrated financial management systems requiring manual entry of some data in multiple systems, and the lack of a systematic process to ensure that data are correctly entered into those systems. On its own initiative and in response to our recommendations, DOD has placed greater management focus on weaknesses in GWOT cost reporting, such as establishing additional procedures for analyzing variances in reported obligations and disclosing underlying reasons for significant changes. In addition, DOD established a Senior Steering Group in February 2007, including representatives from DOD, DFAS, and the military services, in an effort to standardize and improve the GWOT cost-reporting process and to increase management attention to the process.<sup>15</sup> In conjunction with the Senior Steering Group, a GWOT Cost-of-War Project Management Office was established to monitor

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<sup>13</sup>DOD, *Financial Management Regulation*, 7000.14-R, vol. 12, ch. 23, sec. 230702 (September 2007).

<sup>14</sup>GAO-05-882; GAO, *Global War on Terrorism: Fiscal Year 2006 Obligation Rates Are Within Funding Levels and Significant Multiyear Procurement Funds Will Likely Remain Available for Use in Fiscal Year 2007*, GAO-07-76 (Washington, D.C.: Nov. 13, 2006); and GAO-08-68.

<sup>15</sup>Deputy Secretary of Defense Memorandum, *Improvement of Global War on Terror (GWOT) Cost of War Reporting* (Feb. 26, 2007).

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work performed by auditing agencies and to report possible solutions and improvements to the Senior Steering Group. It is tasked with leading initiatives in improving the credibility, transparency, and timeliness of GWOT cost reporting. DOD's efforts are ongoing and we have continued to monitor its progress as GWOT cost reporting has evolved.

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## DOD and the Military Services Continue to Take Steps to Improve Some Aspects of the Accuracy and Reliability of GWOT Cost Reporting

DOD and the military services continue to take steps to improve some aspects of the accuracy and reliability of GWOT cost reporting. Some examples are discussed below. Because efforts to implement some of these initiatives are still in the early stages, their effect on the reliability of GWOT cost reporting is uncertain.

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## DOD Has Several Ongoing Initiatives to Improve Accuracy and Reliability of GWOT Cost Data

DOD has undertaken several initiatives to improve the accuracy and reliability of its GWOT cost data. First, to promote the goal of continually improving its cost-of-war processes and reports, in February 2008, DOD required its components to statistically sample and validate their fiscal year 2008 GWOT obligation transactions on a quarterly basis beginning with the first quarter of fiscal year 2008.<sup>16</sup> DOD also required its components to review randomly sampled non-GWOT obligations to determine whether the transactions were properly classified as non-GWOT versus GWOT. According to DFAS officials, the new requirement has improved the reliability of reported GWOT obligations because DOD components are taking actions to improve their GWOT cost reporting procedures and are making corrections when errors such as missing or illegible supporting documentation, missing codes, and miscoded transactions are found. DFAS plans to include a requirement to review and

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<sup>16</sup>Office of the Under Secretary of Defense (Comptroller) Memorandum, *Continued Improvement to Contingency Operations Reporting* (Feb. 15, 2008).

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validate GWOT obligation data in an update to volume 3, chapter 8 of the DOD *Financial Management Regulation*.<sup>17</sup>

Second, DOD is initiating a new contingency cost-reporting system in fiscal year 2009 called the Contingency Operations Reporting and Analysis System. DOD's goals are to automate the collection of GWOT cost data from DOD components and improve the timeliness of cost-of-war reporting. This system pulls elements of GWOT transaction data directly from DOD components' accounting systems into its data store.<sup>18</sup> Limited features of the system became available for use in October 2008 and it should be fully operational by September 2009. Upon completion of the project, this system should allow DOD and external users to have a consolidated location to view and analyze data for the cost of war, disaster relief, and all other contingencies. Users will have access through a Web browser and should be able to filter data and perform various analyses. Previously, the DOD components individually gathered and manually entered their GWOT cost data monthly into a template provided by DFAS for cost-of-war reporting. According to DFAS officials, the new system is designed to ensure better reliability and eliminate the possibility of manual errors.

Third, DFAS is issuing a redesigned monthly cost-of-war report through the Contingency Operations Reporting and Analysis System, starting in fiscal year 2009, to replace DOD's monthly *Supplemental and Cost of War Execution Report*, which was provided to external customers, including Congress, the Office of Management and Budget, and GAO.<sup>19</sup> The first new cost-of-war report, commonly referred to as the *Contingency Operations Status of Funds Report*, was issued in December 2008 and covered costs

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<sup>17</sup>DOD, *Financial Management Regulation*, 7000.14-R, vol. 3, ch. 8, sec. 080401 (June 2005) requires that funds holders conduct a triannual review of commitments and obligations. During these reviews, officials are to review commitment and obligation transactions for timeliness, accuracy, and completeness.

<sup>18</sup>As of January 2009, the Contingency Operations Reporting and Analysis System can automatically pull operation and maintenance obligation data for the Army, Air Force, Marine Corps, and U.S. Special Operations Command. In addition, the system can automatically pull military personnel obligation data for the Army Reserve and Army National Guard, and procurement nonammunition obligation data for the Marine Corps.

<sup>19</sup>The *Supplemental Cost of War and Execution Report* replaced the *Consolidated DOD Terrorist Cost Response Report* issued from September 2001 through December 2004. DOD has prepared reports on the obligations incurred for its involvement in GWOT since fiscal year 2001.

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for October 2008. According to DOD, this redesigned report should improve transparency over GWOT costs by comparing appropriated GWOT supplemental and annual funding to reported obligations and disbursements. The previous cost-of-war report displayed obligations (both monthly and cumulative by fiscal year) by appropriation, contingency operation, and DOD component, but did not compare obligations to appropriated funding.

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## Military Services Have Taken Actions to Correct Weaknesses in the Reliability of GWOT Cost Data

The military services have also taken actions to correct weaknesses in the reliability of their GWOT cost data. Examples for each of the services are discussed below. Since these actions have only recently been implemented, their effect on the reliability of GWOT cost reporting is uncertain.

### Marine Corps

We found that the Marine Corps was not reporting obligations in descriptive cost categories in the DOD *Supplemental and Cost of War Execution Report* as required in volume 12, chapter 23 of the DOD *Financial Management Regulation*,<sup>20</sup> which DOD established to provide better transparency over reported costs. Specifically, the Marine Corps was reporting obligations in the miscellaneous category of “other supplies and equipment” rather than the more descriptive cost categories. We brought this issue to the attention of both DFAS and the Marine Corps office responsible for submitting monthly cost data to DFAS. Marine Corps officials acknowledged the absence of the data and indicated that they would attempt to provide further breakdown of the Marine Corps’ reported obligations in future reports. In June 2008, the Marine Corps revised its cost-reporting procedures to provide further breakdown of reported obligations for “other supplies and equipment” in DOD’s cost-of-war reports. In addition, Marine Corps officials told us that in May 2008 they streamlined their cost-of-war reporting by centralizing their GWOT cost data-gathering and reporting procedures. Prior to this time, commands would individually submit their monthly GWOT cost data to Marine Corps headquarters. According to Marine Corps officials, the new procedures have improved the visibility and reliability of reported costs across the service, especially at the command level.

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<sup>20</sup>DOD, *Financial Management Regulation*, 7000.14-R, vol. 12, ch. 23, sec. 230406 (September 2007).

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Air Force

We found that the Air Force was reporting some operation and maintenance obligations in the miscellaneous cost categories for “other supplies and equipment” and “other services and miscellaneous contracts” rather than reporting these obligations in the more descriptive cost categories that DOD had established. We brought this issue to the attention of both DFAS and the Air Force office responsible for submitting monthly cost-of-war data to DFAS. In response, the Air Force and DFAS revised the Air Force’s cost-reporting procedures so that costs could only be reported in the more descriptive cost categories.

Army

Our analysis of the fiscal year 2008 Army obligation data showed that the Army was misusing certain accounting codes to capture costs for GWOT contingency operations. Army officials told us that commands were incorrectly using these codes to record costs for activities that were not adequately funded in the base budget such as contracts for security guards and other anti-terrorism force-protection measures for facilities and installations located outside of the continental United States.<sup>21</sup> Consequently, almost \$2 billion in obligations for operation and maintenance was included in DOD’s cost-of-war report for costs that may not be directly attributable to GWOT contingency operations. In addition, the Army reported about \$220 million in GWOT obligations for operation and maintenance costs associated with its modular restructuring initiative.<sup>22</sup> Army officials told us that the Army modular restructuring initiative is not an incremental cost and therefore should not have been included in the cost-of-war report. The Army has addressed these issues for fiscal year 2009 by revising its cost code structure and eliminating cost codes that commands have misused in the past.<sup>23</sup>

Navy

During the course of our work, we found that the Navy lacked a centralized and documented process for its GWOT cost reporting. For example, Navy headquarters had little visibility over how lower-level

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<sup>21</sup>The Army gathers GWOT obligation data by codes called Functional Cost Accounts. Functional Cost Accounts are used for capturing obligations for particular operations, natural disasters, or high-visibility programs. DFAS uses these codes to pull Army obligation data for the Contingency Operations Reporting and Analysis System.

<sup>22</sup>The Army’s modular restructuring initiative began in 2004 as part of the overall Army transformation initiative. See GAO, *Force Structure: Better Management Controls Are Needed to Oversee the Army’s Modular Force and Expansion Initiatives and Improve Accountability for Results*, [GAO-08-145](#) (Washington, D.C.: Dec. 14, 2007).

<sup>23</sup>The revised Army cost codes are included within DFAS-IN Manual 37-100-09 (reference 2.b.), the standard Army accounting-classification manual.

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commands record and report their GWOT costs. Moreover, the Navy's cost-reporting process relied on the use of several computer-operated spreadsheets that required manual data input. The Navy also did not have formal guidance for GWOT cost reporting. In addition, our prior work had revealed that the Navy's Atlantic Fleet and Pacific Fleet used different approaches for allocating a ship's normal operating costs and GWOT costs.<sup>24</sup> In September 2008, the Navy issued formal guidance for GWOT cost reporting in response to weaknesses in internal controls for contingency cost reporting that were identified as a result of its quarterly validations of GWOT obligation transactions. According to the Navy, the new guidance will increase the visibility of its costs, standardize its cost-reporting process for contingency operations, and increase the ability to audit its financial systems. Further, beginning in fiscal year 2008, the Atlantic Fleet and Pacific Fleet began using the same cost model for calculating how much of a ship's total operating costs should be allocated to GWOT. This cost model estimates a ship's GWOT operating costs by the number of days that it is deployed in support of a military operation. According to the Navy, this cost model is part of a broader initiative to improve and coordinate financial management processes at both the Atlantic Fleet and Pacific Fleet.

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## DOD's Approach to GWOT Cost Reporting Does Not Reliably Represent the Costs of Each Contingency Operation

Although DOD has taken steps to improve certain aspects of its GWOT cost reporting, its approach to identifying the costs of specific operations has, in some cases, resulted in the overstatement of costs, particularly for Operation Iraqi Freedom, and in other cases, for both contingencies. Since 2001, DOD has reported significant costs in support of Operation Iraqi Freedom and Operation Enduring Freedom. However, we found that reported costs for Operation Iraqi Freedom may be overstated due to weaknesses in DOD's methodology for reporting its GWOT costs by contingency operation. Furthermore, the military services have reported some costs that are not directly attributable to the support of either Operation Iraqi Freedom or Operation Enduring Freedom.

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<sup>24</sup>[GAO-05-882](#).

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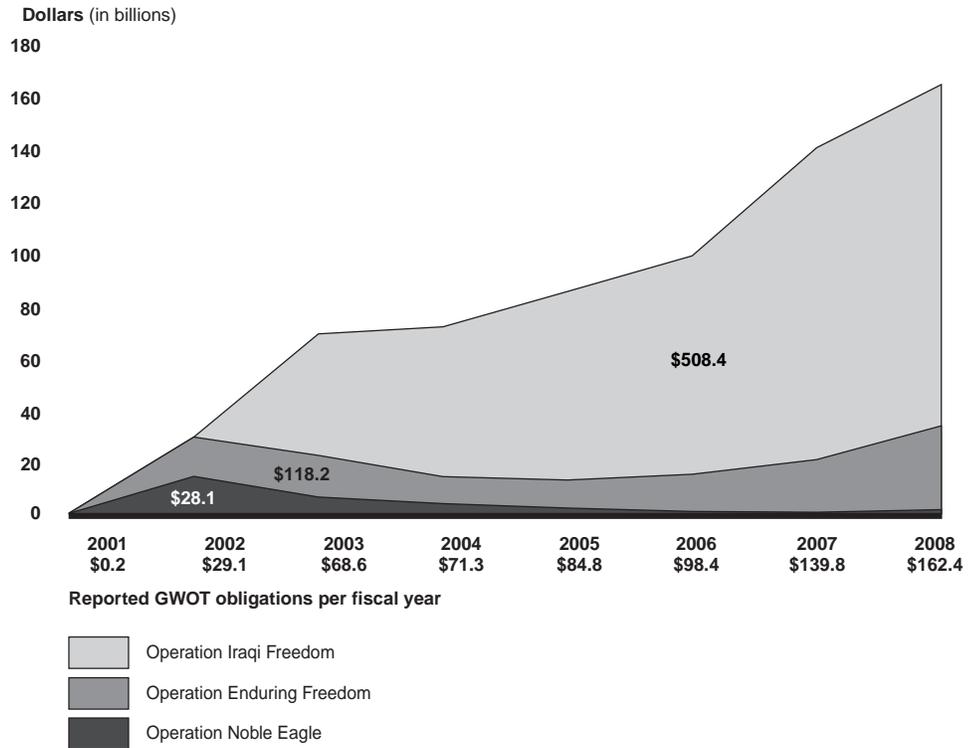
**DOD Has Reported Significant Costs for Operation Iraqi Freedom and Operation Enduring Freedom**

As of September 2008, DOD had reported total obligations of about \$654.7 billion for GWOT, including about \$508.4 billion, or 78 percent, for Operation Iraqi Freedom, about \$118.2 billion, or 18 percent, for Operation Enduring Freedom, and about \$28.1 billion, or 4 percent, for Operation Noble Eagle.<sup>25</sup> As figure 1 shows, since fiscal year 2001, Operation Iraqi Freedom has accounted for the largest amount of total reported obligations among these three operations. However, DOD's reporting of costs for GWOT does not reliably represent the costs of contingency operations, for reasons discussed below.

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<sup>25</sup>We are unable to ensure that DOD's reported obligations for GWOT are complete, reliable, and accurate, and they should therefore be considered approximations.

**Figure 1: DOD's Reported Cumulative GWOT Obligations for Fiscal Years 2001 through 2008 by Contingency Operation**



Source: GAO analysis of DOD data.

Notes: 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 war-related but 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. Obligation figures may not add due to rounding.

### Weaknesses Exist in DOD's Methodology for Reporting GWOT Costs by Contingency Operation

We found that reported costs for Operation Iraqi Freedom may be overstated due to weaknesses in DOD's methodology for reporting its GWOT costs by contingency operation. Volume 12, chapter 23 of the DOD *Financial Management Regulation* emphasizes the importance of cost reporting and requires DOD components to make every effort possible to

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capture and accurately report the cost of contingency operations.<sup>26</sup> Furthermore, this regulation states that actual costs should be reported, but when actual costs are not available, DOD components are required to establish and document an auditable methodology for capturing costs.<sup>27</sup> While the Army and Marine Corps are capturing totals for procurement and certain operation and maintenance costs, they do not have a methodology for determining what portion of these GWOT costs is attributable to Operation Iraqi Freedom versus Operation Enduring Freedom. For example, both military services reported their GWOT costs for procurement and certain operation and maintenance activities as costs exclusively attributable to Operation Iraqi Freedom, although a portion of these costs are attributable to Operation Enduring Freedom. In fiscal year 2008:

- The Army reported about \$30.2 billion in GWOT procurement obligations as costs tied to Operation Iraqi Freedom and none as part of Operation Enduring Freedom, even though, according to Army officials, some of these costs were incurred in support of Operation Enduring Freedom. These reported obligations include both non-reset-related and reset-related procurement for items such as aircraft, munitions, vehicles, communication and electronic equipment, combat support, up-armored High Mobility Multipurpose Wheeled Vehicles, and countermeasures for improvised explosive devices.<sup>28</sup>
- The Army reported obligations of about \$8 billion for operation and maintenance associated with reset for Army prepositioned stocks, depot maintenance, recapitalization, aviation special technical inspection and repair, and field maintenance as part of Operation Iraqi Freedom but none for Operation Enduring Freedom, even though, according to Army officials, some of these costs were incurred in support of Operation Enduring Freedom.

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<sup>26</sup>DOD, *Financial Management Regulation*, 7000.14-R, vol. 12, ch. 23, sec. 230904B (September 2007).

<sup>27</sup>DOD, *Financial Management Regulation*, 7000.14-R, vol. 12, ch. 23, sec. 230904C1 and 230904C2 (September 2007).

<sup>28</sup>DOD defines reset as actions to restore units to a desired level of combat capability, including maintenance and supply activities that restore and enhance equipment that was destroyed, damaged, stressed, or worn out beyond economic repair due to combat operations by repairing, rebuilding, or procuring replacement equipment.

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- The Marine Corps reported \$3.9 billion in procurement obligations as costs tied to Operation Iraqi Freedom but none as part of Operation Enduring Freedom, even though, according to Marine Corps officials, some of these costs were incurred in support of Operation Enduring Freedom. As in the case of the Army, these reported obligations include non-reset-related and reset-related procurement for various items.
  - The Marine Corps reported obligations of about \$1.1 billion for operation and maintenance for “reconstitution/resetting the force” as part of Operation Iraqi Freedom but none for Operation Enduring Freedom, even though, according to Marine Corps officials, some of these costs were incurred in support of Operation Enduring Freedom.

The reason military service officials gave for not separating equipment-related costs between the two operations was that it was difficult to do so. Army officials told us that when actual costs cannot be clearly attributed to Operation Iraqi Freedom or Operation Enduring Freedom, they report all of these costs as part of Operation Iraqi Freedom since it is viewed as the larger of the two operations in terms of costs and funding. Marine Corps officials stated that they did not always know where GWOT equipment purchased with procurement appropriations ultimately went. These officials told us that they believed that the vast majority of the equipment was delivered to Iraq since, prior to April 2008, the bulk of Marine Corps forces had been deployed to Iraq in support of Operation Iraqi Freedom. While this assumption could be generally correct, without data on where equipment was delivered it is unclear what costs were incurred to support each operation. We observed that the command responsible for the acquisition and sustainment of war-fighting equipment for the Marine Corps did not have a cost code for Operation Enduring Freedom. As a result, all of the Marine Corps’ reported obligations for procurement and equipment-related operation and maintenance expenses were being coded in support of Operation Iraqi Freedom. Without a methodology for determining what portion of total GWOT obligations is attributable to Operation Iraqi Freedom or Operation Enduring Freedom, reported costs for Operating Iraqi Freedom may be overstated and cost information for both operations will remain unreliable.

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**Military Services Have Reported Some Costs That Are Not Directly Attributable to Operation Iraqi Freedom or Operation Enduring Freedom**

The military services have included some costs that are not directly attributable to the support of Operation Iraqi Freedom or Operation Enduring Freedom in their reported GWOT obligations. According to the DOD *Financial Management Regulation*, costs incurred beyond what was reasonably necessary to support a contingency operation cannot be deemed incremental expenses, since such costs are not directly attributable to support of the operation.<sup>29</sup> However, in September 2005, DOD expanded the definition of incremental costs for large-scale contingencies, such as those conducted as part of GWOT, to include expenses beyond direct incremental costs. We believe that this expanded definition is problematic because it provides no guidance on what expenses beyond those attributable to a specific operation can be considered incremental costs and reported or what expenses are due to the changed security environment since 9/11 and should be funded and accounted for as part of the base budget. In the absence of additional guidance, the military services have made their own interpretations or determinations as to whether and how to include expenses not directly attributable to GWOT contingency operations, and those criteria vary. As a result, we found several examples of costs that the military services have reported that are not directly attributable to the support of either Operation Iraqi Freedom or Operation Enduring Freedom. It is unclear whether these expenses continue to meet the definition of incremental costs of contingency operations or should be funded and accounted for as part of DOD's base budget. Some examples follow:

**Marine Corps**

The Marine Corps reported about \$1.4 billion in obligations for procurement and operation and maintenance in fiscal year 2008 in support of Grow the Force—a long-term force-structure initiative—as part of Operation Iraqi Freedom. Grow the Force is an initiative that was announced by the President in January 2007 to increase the active duty end-strength of the Army and Marine Corps. According to Marine Corps strategic guidance, this increase in force structure will provide the Marine Corps with additional resources needed to fight what the Marine Corps refers to as the “long war.” The guidance outlines the Marine Corps’ strategic plan for force employment to meet the need for counterinsurgency and building partnership capacity in support of the National Defense Strategy and multinational efforts in the “Global War on Terrorism/Long War.” The Marine Corps established a cost code for

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<sup>29</sup>DOD, *Financial Management Regulation*, 7000.14-R, vol. 12, ch. 23, sec. 230902 and sec. 231403A (September 2007).

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capturing Grow the Force costs. A Marine Corps official told us that they reported all obligations in support of Grow the Force as part of Operation Iraqi Freedom because, prior to April 2008, the majority of Marines deployed overseas were stationed in Iraq. Marine Corps officials at commands we visited told us that examples of their commands' reported obligations for operation and maintenance in support of Grow the Force included civilian labor and infrastructure costs for bases and facilities located inside the United States. These officials further stated that these costs were necessary to accommodate the increased size of the force. Similarly, at one Marine Corps command, we found reported GWOT costs for the repair and renovation of sites and facilities located within the United States for the purpose of improving security against terrorism. Marine Corps officials at this command said that these security initiatives included costs for such items as barbed wired fences, automatic vehicle gates, automobile barricades, and security cameras. These officials further stated that Marine Corps headquarters instructed them to code these costs as part of Operation Iraqi Freedom. The Marine Corps reported about \$42.4 million in obligations for operation and maintenance for these security costs in fiscal year 2008.

## Air Force

The Air Force established a code for capturing "long war/reconstitution" operation and maintenance costs based on changes in DOD's funding guidance for GWOT requests in fiscal year 2007.<sup>30</sup> Air Force guidance defines "long war" costs as all incremental costs related to the war on terror beyond costs strictly limited to Operation Iraqi Freedom and Operation Enduring Freedom. These costs include reconstitution/reset costs for combat losses, accelerated wear and necessary repairs to damaged equipment or replacement to newer models when existing equipment is no longer available or economically feasible, and costs to accelerate specific force capabilities to carry out GWOT. Among the costs included in this code are forward-presence deployments or what the Air Force calls Theater Security Packages, which is a forward-basing concept involving both bombers and select fighter aircraft that is conducted in the Pacific Command area of responsibility. Air Force officials told us that because there is no category to report recurring or longer-term costs separately from established GWOT contingency operations, they report long war costs, including costs related to Theater Security Packages, as

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<sup>30</sup>The Air Force developed its "long war" code based upon the Deputy Secretary of Defense Memorandum, *Ground Rules and Process for the FY '07 Spring Supplemental* (Oct. 25, 2006) that expanded the ground rules for DOD's GWOT requests to include costs related to the "longer war against terror."

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part of Operation Iraqi Freedom since it is the largest operation. The Air Force reported about \$464 million in long-war costs for fiscal year 2008.

## Navy

The Navy reported costs for forward-presence missions as part of GWOT contingency operations even though the Navy routinely deploys its forces around the globe in peacetime as well as wartime. As these GWOT contingency operations have evolved over time, it has become increasingly difficult to determine what costs can be deemed as incremental expenses in support of these operations from costs that would have been incurred whether or not these contingency operations took place, such as ship operating costs for the Navy. For example, the Atlantic and Pacific surface commands, which are responsible for managing the Navy's surface ships, reported obligations for costs associated with ship operations and port visits for ships deployed on forward-presence missions in the Western Pacific. Navy officials told us that some of these ships are stationed out of Hawaii, Japan, and Guam and operate near Malaysia, the Philippines, and Thailand. According to Navy officials, these ships are spending more time at sea and visiting more foreign ports in an effort to provide additional presence in support of GWOT. In 2008, Navy officials stated that Navy guidance expanded the definition of incremental costs in support of Operation Enduring Freedom to include those costs associated with forces operating in the Southern Command area of responsibility. We found that the Atlantic and Pacific surface commands reported obligations for ship operating costs and port visit costs for ships deployed on humanitarian missions in Central and South America. Navy officials said that ships deployed on humanitarian missions have visited countries such as El Salvador and Peru. These officials told us that the Navy considers the humanitarian missions to be GWOT-related because they benefit the security of the United States by spreading goodwill and reducing the expansion of terrorism in foreign nations. Costs for these missions are included within the Atlantic and Pacific surface commands' ship operating costs for GWOT, which according to our analysis represented about 21 percent (about \$875 million) of the Atlantic Fleet and Pacific Fleet's total GWOT reported obligations for operation and maintenance (about \$4.2 billion) in fiscal year 2008.<sup>31</sup>

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<sup>31</sup>As previously discussed, because the Navy uses a cost model to estimate how much of a ship's total operating costs should be allocated to GWOT, we are unable to identify the specific costs tied to these forward-presence missions.

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Until DOD reconsiders whether expenses not directly attributable to specific GWOT contingency operations are incremental costs, the military services may continue to include these expenses as part of Operation Iraqi Freedom and Operation Enduring Freedom. Furthermore, reported costs for both operations may be overstated and costs not directly attributable to either operation may continue to be included in DOD's GWOT funding requests rather than the base budget.

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## Conclusions

In light of the nation's long-term fiscal challenge and the current financial crisis, DOD will need a more disciplined approach to budgeting and evaluating trade-offs as it continues to support ongoing operations and prepares for future threats. As the department prepares additional GWOT funding requests for military operations in support of Operation Iraqi Freedom and Operation Enduring Freedom, reliable and transparent cost information will be of critical importance in determining the future funding needs for each operation. However, DOD's approach to cost reporting does not reliably represent the costs of these contingency operations. Although DOD has reported significant costs for Operation Iraqi Freedom and Operation Enduring Freedom, the cost for Operation Iraqi Freedom may be overstated, since DOD does not have a methodology to determine what portion of its total reported GWOT obligations for procurement and certain operation and maintenance costs is attributable to each operation. Furthermore, it is difficult to determine whether some expenses not directly attributable to Operation Iraqi Freedom and Operation Enduring Freedom are actually incremental costs and incurred to support those operations. Expenses beyond those directly attributable to either operation may be more reflective of the enduring nature of GWOT and the United States' changed security environment since 9/11 and thus should be part of what DOD would request and account for as part of its base budget. Due to the enduring nature of GWOT, its cost implications should be part of the annual base budget debate, especially in light of the competing priorities for an increasingly strained federal budget.

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## Recommendations for Executive Action

In order to improve the transparency and reliability of DOD's reported obligations for GWOT by contingency operation, we recommend that the Secretary of Defense direct the Under Secretary of Defense (Comptroller) to (1) ensure DOD components establish an auditable and documented methodology for determining what portion of GWOT costs is attributable to Operation Iraqi Freedom versus Operation Enduring Freedom when actual costs are not available, and (2) develop a plan and timetable for evaluating whether expenses not directly attributable to specific GWOT

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contingency operations are incremental costs and should continue to be funded outside of DOD's base budget.

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## Agency Comments and Our Evaluation

In written comments on a draft of this report, DOD agreed with our first recommendation and partially agreed with our second recommendation. The department's comments are discussed below and are reprinted in appendix II.

DOD agreed with our recommendation that it ensure its components establish an auditable and documented methodology for determining what portion of GWOT costs is attributable to Operation Iraqi Freedom versus Operation Enduring Freedom when actual costs are not available. In its comments, DOD noted that it believes its components, for the most part, have established formal guidance to strengthen internal controls and capture all costs associated with Operation Iraqi Freedom and Operation Enduring Freedom from within their accounting systems. However, DOD noted that the DOD *Financial Management Regulation* does include guidance for DOD components to develop auditable methodologies, and when actual cost by operation is not available, its components are required to internally document the methodology used to develop a derived estimate of the cost.<sup>32</sup> DOD stated that it intends to strengthen the guidance in its *Financial Management Regulation* to require an annual review of the methodologies used to allocate these costs. DOD believes this action will help promote reasonable cost allocations and consistent cost-of-war reporting throughout the department.

DOD partially agreed with our second recommendation that it develop a plan and timetable for evaluating whether expenses not directly attributable to specific GWOT contingency operations are incremental costs and should continue to be funded outside of DOD's base budget. DOD noted that it has been reporting contingency costs for several years and its objective is to include all incremental costs attributable to the war effort. DOD also stated that, as part of its continuing efforts to improve both budgeting and reporting of war costs, it collaborated with the Office of Management and Budget to refine the criteria used for determining where costs will be budgeted, either in the base or contingency budgets, and ultimately reported. DOD noted that it will use the refined criteria to

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<sup>32</sup>DOD, *Financial Management Regulation*, 7000.14-R, vol. 12, ch. 23, sec. 230904C1 and 230904C2 (September 2007).

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inform the development of portions of the fiscal year 2009 Overseas Contingency Operations Supplemental Request and the full fiscal year 2010 Overseas Contingency Operations Request, which has not yet been submitted to Congress. As a result, we have not yet been able to evaluate DOD's actions to assess whether they meet the intent of our recommendation, but will review these actions when the budget requests are finalized and submitted to Congress.

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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. In addition, the report is also available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staff have any questions regarding this report, please contact me at (202) 512-9619 or [pickups@gao.gov](mailto:pickups@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix III.



Sharon Pickup  
Director  
Defense Capabilities and Management

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*List of Committees*

The Honorable Carl Levin  
Chairman  
The Honorable John McCain  
Ranking Member  
Committee on Armed Services  
United States Senate

The Honorable Kent Conrad  
Chairman  
The Honorable Judd Gregg  
Ranking Member  
Committee on the Budget  
United States Senate

The Honorable Daniel K. Inouye  
Chairman  
The Honorable Thad Cochran  
Ranking Member  
Subcommittee on Defense  
Committee on Appropriations  
United States Senate

The Honorable Ike Skelton  
Chairman  
The Honorable John M. McHugh  
Ranking Member  
Committee on Armed Services  
House of Representatives

The Honorable John M. Spratt, Jr.  
Chairman  
The Honorable Paul Ryan  
Ranking Member  
Committee on the Budget  
House of Representatives

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The Honorable John P. Murtha  
Chairman  
The Honorable C. W. Bill Young  
Ranking Member  
Subcommittee on Defense  
Committee on Appropriations  
House of Representatives

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# Appendix I: Scope and Methodology

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To accomplish this review, we obtained and reviewed copies of the October 2007 through September 2008 monthly Department of Defense (DOD) *Supplemental and Cost of War Execution Reports* from the Office of the Undersecretary of Defense (Comptroller) to identify reported Global War on Terrorism (GWOT) obligations by contingency operation and appropriation account for the military services. We focused our review on the obligations reported for military personnel, operation and maintenance, and procurement, for the Army, Navy, Marine Corps and Air Force, both active and reserve forces, as these data represent the largest amount of GWOT costs.

As we have previously reported, we have found the data in DOD's *Supplemental and Cost of War Execution Reports* 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 should therefore be considered approximations. In addition, DOD has acknowledged that systemic weaknesses with its financial management systems and business operations continue to impair its financial information. Despite the uncertainty about DOD's obligation data, we are using this information because it is the only way to approach an estimate of the costs of the war. Also, despite the uncertainty surrounding the true dollar figure for obligations, these data are used to advise Congress on the cost of the war.

To assess DOD's progress in improving the accuracy and reliability of its GWOT cost reporting, we analyzed GWOT obligation data in DOD's monthly *Supplemental and Cost of War Execution Reports* as well as the military services' individual accounting systems. These systems included the Army's Standard Financial System, the Navy's Standard Accounting and Reporting System, the Marine Corps' Standard Accounting, Budgeting and Reporting System, and the Air Force's Commanders Resource Information System. We analyzed GWOT obligation data from these accounting systems to better understand the military services' GWOT cost-reporting procedures and how they used these data to report costs in DOD's monthly *Supplemental and Cost of War Execution Reports*. We then obtained and reviewed guidance issued by DOD and the military services regarding data analysis and methods for reporting obligations for GWOT. We also interviewed key officials from the Office of the Under Secretary of Defense (Comptroller), the Defense Finance and Accounting Service, the Army, Navy, Marine Corps, and Air Force to obtain information about specific processes and procedures DOD and the military services have undertaken to improve the accuracy and reliability of reported GWOT cost information.

To assess DOD's methodology for reporting GWOT costs by contingency operation, including the types of costs reported for those operations, we analyzed GWOT obligation data in DOD's monthly *Supplemental and Cost of War Execution Reports*, including the source data for those reports in the military services' individual accounting systems. As previously discussed, these systems included the Army's Standard Financial System, the Navy's Standard Accounting and Reporting System, the Marine Corps' Standard Accounting, Budgeting and Reporting System, and the Air Force's Commanders Resource Information System. We analyzed GWOT obligation data from these accounting systems to determine how the military services captured costs for specific contingency operations, including the types of costs they included as part of these contingency operations. We then obtained and reviewed guidance issued by DOD and the military services for identifying and reporting GWOT obligations by contingency operation. We also interviewed key officials from the Office of the Under Secretary of Defense (Comptroller), the Army, Navy, Marine Corps, and Air Force to determine how they interpreted and implemented this guidance.

We interviewed DOD representatives regarding GWOT obligations, policy, guidance, and funding for fiscal year 2008 and the reliability of cost reporting in the following locations:

Army

- Headquarters, Department of the Army, Washington, D.C.
- U.S. Army Installation Management Command Headquarters, Arlington, Virginia
- Army Materiel Command, Ft. Belvoir, Virginia
- Headquarters, U.S. Army Forces Command, Ft. McPherson, Georgia
- U.S. Army Central Command, Ft. McPherson, Georgia
- U.S. Army Installation Management Command, Southeast Region, Ft. McPherson, Georgia
- Headquarters, First Army, Ft. Gillem, Georgia
- Headquarters, U.S. Army Pacific, Ft. Shafter, Hawaii

Navy

- Department of the Navy, Headquarters, Washington, D.C.
- Commander, Navy Installations Command Headquarters, Washington, D.C.
- Commander, U.S. Fleet Forces Command, Norfolk, Virginia
- Commander, Naval Air Forces, U.S. Fleet Forces Command, Norfolk, Virginia
- Commander, Naval Surface Forces, U.S. Fleet Forces Command, Norfolk, Virginia
- Commander, Submarine Forces, U.S. Fleet Forces Command, Norfolk, Virginia

- Commander, Navy Expeditionary Combat Command, Norfolk, Virginia
  - Commander, U.S. Pacific Fleet, Pearl Harbor, Hawaii
  - Commander, Submarine Forces, U.S. Pacific Fleet, Pearl Harbor, Hawaii
  - Commander, Naval Air Forces, U.S. Pacific Fleet, San Diego, California
  - Commander, Naval Surface Forces, U.S. Pacific Fleet, San Diego, California
  - Commander, Navy Reserve Forces Command, New Orleans, Louisiana
- Marine Corps
- Headquarters Marine Corps, Washington, D.C.
  - U.S. Marine Corps Forces Command, Norfolk, Virginia
  - Marine Corps Systems Command, Quantico, Virginia
  - U.S. Marine Corps Forces Central Command, MacDill Air Force Base, Florida
  - U.S. Marine Corps Forces, Pacific, Camp H.M. Smith, Hawaii
  - 1st Marine Expeditionary Force, Camp Pendleton, California
  - Marine Corps Base Camp Pendleton, Camp Pendleton, California
  - Marine Corps Installations West, Camp Pendleton, California
  - Marine Forces Reserve, New Orleans, Louisiana
- Air Force
- Department of the Air Force, Headquarters, Washington, D.C.
  - Air Force Air Combat Command, Langley Air Force Base, Virginia
  - 1st Fighter Wing, Langley Air Force Base, Virginia
  - Headquarters, Air National Guard, Arlington, Virginia
  - Pacific Air Forces, Hickam Air Force Base, Hawaii
  - Air Force Materiel Command, Wright-Patterson Air Force Base, Ohio
- Office of the Secretary of Defense
- Office of the Under Secretary of Defense (Comptroller) Washington, D.C.
- Defense Finance and Accounting Service
- Defense Finance and Accounting Service, Indianapolis, Indiana
- Unified Commands
- U.S. Pacific Command, Camp H.M. Smith, Hawaii
  - U.S. Central Command, MacDill Air Force Base, Florida
  - U.S. Special Operations Command, MacDill Air Force Base, Florida
- Office of Management and Budget
- Office of Management and Budget, Washington, D.C.

We performed our work from January 2008 through March 2009 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

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obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

# Appendix II: Comments from the Department of Defense



COMPTROLLER

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

MAR 13 2009

Ms. Sharon Pickup  
Director, Defense Capabilities and Management  
U.S. Government Accountability Office  
441 G Street, N.W.  
Washington, DC 20548

Dear Ms. Pickup:

This is the Department of Defense (DoD) response to the Government Accountability Office (GAO) Draft Report GAO-09-302, "GLOBAL WAR ON TERRORISM: DoD Needs to More Accurately Capture and Report the Costs of Operation Iraqi Freedom and Operation Enduring Freedom," dated February 9, 2009 (GAO Code 351155).

The Department appreciates the opportunity to comment on the draft report, and we were pleased to see the many instances where GAO includes comment on the progress made by the Department to improve the accuracy and reliability of cost of war reporting. We consider the newly revised cost of war report, commonly referred to as the Status of Funds report, to be a primary example where the Department has taken steps to improve the reliability and usefulness of cost of war reporting.

In recent months, the Department has focused on validating the reliability of the current reporting process and making improvements. The underlying controls in capturing the contingency-related incremental cost data at the various sources and in reporting the consolidated balances in the monthly Status of Funds 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 concurs with the recommendation that DoD should establish an auditable and documented methodology for determining what portion of contingency cost is attributable to Operation Iraqi Freedom (OIF) or Operation Enduring Freedom (OEF) when actual costs are not available. As the report notes, Volume 12, Chapter 23 of the DoD Financial Management Regulation (DoD FMR) 7000.14-R does include guidance for the DoD Components to develop auditable methodologies. The Components, for the most part, have established formal guidance to strengthen internal controls and to capture all costs associated with OIF/OEF from within their accounting systems. In instances where the support was provided at the theater level, i.e., acquisition of bandwidth or

“Navy steaming days,” and actual cost by operation is not available, the Components are required to internally document the methodology used to develop the derived estimate of cost. We intend to strengthen the guidance in the DoD FMR to require an annual review of the methodologies used to allocate these costs. We believe this action will help to promote reasonable cost allocations and consistent cost of war reporting throughout the Department.

The Department partially concurs with the recommendation that DoD should develop a plan and timetable for evaluating whether expenses not directly attributable to specific contingency operations are incremental costs and should continue to be funded outside of DoD’s base budget. The Department has been reporting contingency costs for several years, and its objective is to include all incremental costs attributable to the war effort. An example of the Department’s continuing efforts to improve both budgeting and reporting for the war effort is a recent collaboration with the Office of Management and Budget to refine the criteria used for determining where costs will be budgeted, either in the base or overseas contingency operations budgets, and ultimately reported. The Department will use the refined criteria to inform the development of the FY 2009 Overseas Contingency Operations Supplemental Request and the FY 2010 Overseas Contingency Operations Request.

Sincerely,



Robert F. Hale

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# Appendix III: GAO Contact and Staff Acknowledgments

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## GAO Contact

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

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## Acknowledgments

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