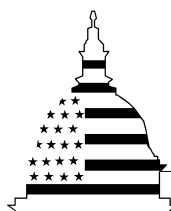


September 2005

GLOBAL WAR ON TERRORISM

DOD Should Consider All Funds Requested for the War When Determining Needs and Covering Expenses



G A O

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Highlights of [GAO-05-767](#), a report to congressional committees

Why GAO Did This Study

To assist the Congress in its oversight role, GAO is undertaking a series of reviews on the costs of operations in support of the Global War on Terrorism (GWOT). In related work, GAO is raising concerns about the reliability of the Department of Defense's (DOD) reported cost data and therefore is unable to ensure that DOD's reported obligations for GWOT are complete, reliable, and accurate. In this report, GAO (1) identified funding for GWOT in fiscal years 2004 and 2005, (2) compared supplemental appropriations for GWOT in fiscal year 2004 to the military services' reported obligations, and (3) compared supplemental appropriations for GWOT in fiscal year 2005 to the military services' projected obligations.

What GAO Recommends

GAO recommends the Secretary of Defense adjust future requests for supplemental appropriations to reflect the additional funds DOD received in its annual appropriations to support GWOT and consider these additional funds when assessing how to cover its expenses for the war. DOD disagreed with GAO's recommendations. Given that disagreement and the amount of funds available—more than \$10 billion annually—GAO has added a matter for congressional consideration regarding directing DOD to explain how additional GWOT related funding in its annual appropriations supports GWOT.

www.gao.gov/cgi-bin/getrpt?GAO-05-767.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Sharon L. Pickup at (202) 512-9619 or pickups@gao.gov.

GLOBAL WAR ON TERRORISM

DOD Should Consider All Funds Requested for the War When Determining Needs and Covering Expenses

What GAO Found

In fiscal years 2004 and 2005, DOD received funding for GWOT through both funds included in its annual appropriation and supplemental appropriations. In fiscal years 2004 and 2005, the military services received about \$52.4 billion and \$62.1 billion, respectively, in supplemental appropriations for GWOT (1) military personnel and (2) operation and maintenance expenses. The Army, Air Force, and Navy also received in their annual appropriations a combined \$7.9 billion in fiscal year 2004 and a combined \$7.6 billion in fiscal year 2005, which DOD described as being intended to support GWOT. The military services absorbed the increase into their annual appropriations and allocated it based on their judgment of where the funds were most needed. DOD's accounting systems, however, do not separately identify these additional appropriations, and there are no reporting requirements for DOD to identify to which appropriation accounts the funds were allocated; consequently, the military services have lost visibility over these funds and do not know the extent to which they are being used to support GWOT. Despite having asked for the increase to support GWOT, DOD is not explicitly counting these additional funds when considering the amount of funding available to cover GWOT expenses.

For fiscal year 2004, regarding supplemental appropriations for GWOT military personnel expenses, the Navy and Marine Corps reported more in obligations than they received in supplemental appropriations, while the Army and Air Force received more in supplemental appropriations than their reported obligations. Each of the services reported more in GWOT operation and maintenance obligations than it received in supplemental appropriations. To cover the differences (gaps), DOD and the services exercised a number of authorities provided them, including transferring funds and reducing or deferring planned spending for peacetime operations. However, in considering the amount of funding available to cover the gaps, DOD did not explicitly take into account the funds provided through its annual appropriation that as previously noted it described as for the support of GWOT. If DOD had considered these funds, it could have reduced the Army's GWOT gap and eliminated the GWOT gaps of the Air Force and Navy.

For fiscal year 2005, the services' forecasts of GWOT obligations for the full fiscal year as of June 2005 suggest a potential gap of \$500 million for military personnel for the Air Force and potential gaps of about \$2.7 billion and about \$1 billion, respectively, for operation and maintenance for the Army and Air Force. To cover expenses, DOD and the services again plan to take a variety of actions, including reprogramming funds and reducing or deferring planned spending. However, DOD is again not explicitly considering the funds provided through its annual appropriation, which it described as for the support of GWOT. If counted in fiscal year 2005, the amounts potentially could reduce the Army's and eliminate the Air Force's GWOT gaps and eliminate the need for reprogramming funds and reducing or deferring planned spending.

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Abbreviations

DOD	Department of Defense
GWOT	Global War on Terrorism
LOGCAP	Logistics Civil Augmentation Program

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United States Government Accountability Office
Washington, D.C. 20548

September 28, 2005

Congressional Committees

Since the September 11, 2001, terrorist attacks, the Congress has provided the Department of Defense (DOD) with more than \$265 billion, as of August 2005, in supplemental appropriations to support military operations to combat terrorism worldwide. The Congress has also provided funds to combat terrorism in DOD's annual appropriation. Military operations to defend the United States from terrorist attacks are known as Operation Noble Eagle. Overseas military operations to combat terrorism are known as Operation Iraqi Freedom, which takes place in and around Iraq, and Operation Enduring Freedom, which takes place principally in Afghanistan. These operations are known collectively as the Global War on Terrorism (GWOT).

To assist the Congress in its oversight role, we have conducted under the Comptroller General's statutory authority a series of reviews on the reported obligations and funding for military operations in support of GWOT¹ and have addressed this report to the congressional committees of jurisdiction. 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.² In July 2004, we issued a report that discussed fiscal year 2004 obligations and funding through April 2004.³ This report completes our analysis of fiscal year 2004 and includes our assessment of the outlook for fiscal year 2005 obligations and funding for the war as of May 2005. In this report, we (1) identified funding for GWOT in fiscal years 2004 and 2005; (2) compared supplemental appropriations for GWOT in fiscal year 2004 to the military services' reported obligations and, if differences occurred, determined the actions DOD and the services took to cover them; and (3) compared supplemental appropriations for GWOT in

¹GAO, *Military Operations: Fiscal Year 2004 Costs for the Global War on Terrorism Will Exceed Supplemental, Requiring DOD to Shift Funds from Other Uses*, [GAO-04-915](#) (Washington, D.C.: July 21, 2004), and *Military Operations: DOD's Fiscal Year 2003 Funding and Reported Obligations in Support of the Global War on Terrorism*, [GAO-04-668](#) (Washington, D.C.: May 13, 2004).

²*Department of Defense Financial Management Regulation*, 7000.14-R, vol. 1, Definitions, p. xvii (December 2001).

³See [GAO-04-915](#).

fiscal year 2005 to the services' projected obligations. Where it appeared that obligations may exceed the supplemental appropriations provided in fiscal year 2005, we sought to identify the actions DOD and the services plan to take to cover the gaps. For purposes of this report, the term "gap" refers to comparisons between funds provided in supplemental appropriations and DOD's reported GWOT obligations—specifically to instances where DOD's reported GWOT obligations exceed the supplemental appropriations provided to the department during the fiscal year. Because operational conditions on the ground can vary substantially during the fiscal year, DOD's actual funding needs may be more or less than the amount initially estimated or received. As we discuss in this report, DOD may address these differences (gaps) by using its annual appropriations. There is no indication, however, that DOD incurred any Antideficiency Act violations.

We limited our review to the obligation of funds appropriated for military personnel and operation and maintenance, for both active and reserve forces of the Army, Air Force, Navy, and Marine Corps, because they represented the majority of the funds obligated in fiscal years 2004 and 2005, about 90 percent in each year. We did not review the obligation of funds for investment, which are used for procurement; military construction; and research, development, test, and evaluation.

To identify funding DOD describes as intended for GWOT, we reviewed applicable annual and supplemental DOD appropriations in fiscal years 2004 and 2005. To compare supplemental appropriations provided to the military services for GWOT to reported obligations in both fiscal years 2004 and 2005, we reviewed applicable supplemental appropriations and compared them to the reported amounts obligated by each service. To identify DOD's reported GWOT obligations,⁴ we used DOD's *Supplemental and Cost of War Execution Reports*, which report DOD's monthly and cumulative GWOT obligations, and analyzed these data. These reports were called the *Consolidated Department of Defense Terrorist Response Cost Reports* through December 2004, and renamed beginning in January 2005. We excluded classified programs from our review, because obligations for those programs are not reported in DOD's *Supplemental and Cost of War Execution Reports*. To determine actions taken by DOD and the services to cover any identified gaps between reported obligations and supplemental

⁴DOD's financial systems only capture total obligations, and the services use various management information systems to identify incremental obligations and to estimate costs.

appropriations for GWOT, we held discussions with DOD representatives from the Office of the Under Secretary of Defense (Comptroller) and the Army, Air Force, Navy, and Marine Corps.

We have previously reported concerns regarding DOD's oversight and cost reporting of funds appropriated for contingency operations. For example, in May 2004 we reported that DOD's cost reporting for GWOT included large amounts of funds that have been reported as obligated in miscellaneous categories and thus provide little insight on how those funds have been spent,⁵ and in April 2003 we reported that DOD's ability to track the use of funds appropriated for GWOT has varying limitations depending on the appropriation.⁶ In response, DOD has taken a number of steps to improve its oversight and cost reporting of funds appropriated for contingency operations. These actions include revising the *Department of Defense Financial Management Regulation* in January 2005 to include new cost reporting categories that refine the reporting of obligations previously reported as miscellaneous.

GWOT obligations provided in this report are DOD's claimed obligations as reported in the Supplemental and Cost of War Execution Reports. In related work,⁷ we have reported these data to be of questionable reliability. For example, we found financial management systems with acknowledged weaknesses, a lack of systematic processes to ensure accurate data entry, failure to use actual data when it was available, and improperly categorized costs. Therefore, we are unable to ensure that DOD's reported obligations for GWOT are complete, reliable, and accurate. Consequently, the gaps we identify between supplemental appropriations and DOD's reported obligations may not reliably reflect true differences between supplemental appropriations and obligations and therefore should be considered approximations. Despite the uncertainty about the obligation data, we are reporting the information because it is the only data available on overall GWOT costs and so the only way to approach an estimate of the costs of the war. Also, despite the uncertainty surrounding the true dollar figure for

⁵See [GAO-04-668](#).

⁶GAO, *Defense Budget: Tracking of Emergency Response Funds for the War on Terrorism*, [GAO-03-346](#) (Washington, D.C.: Apr. 30, 2003).

⁷GAO, *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).

obligations, these data are used to advise the Congress on the cost of the war. As such, obligation data provided in this report reflect DOD reported obligations, however unreliable those reports may be.

We conducted our review from November 2004 through August 2005 in accordance with generally accepted government auditing standards.

Results in Brief

In fiscal years 2004 and 2005, DOD received funding to support GWOT in both its annual appropriation and in supplemental appropriations provided during those years. The military services received about \$52.4 billion and about \$62.1 billion in fiscal years 2004 and 2005, respectively, in supplemental appropriations for GWOT military personnel and operation and maintenance expenses. At the same time, DOD requested that the Army, Air Force, and Navy receive a combined increase of about \$7.9 billion in fiscal year 2004 and a combined increase of about \$7.6 billion in fiscal year 2005 in their annual appropriations, which DOD said would be for support of GWOT. The military services absorbed the increase into their annual appropriations and allocated it based on their judgment of where the funds were most needed. DOD's accounting systems, however, do not separately identify these additional appropriations and there are no reporting requirements for DOD to identify to which appropriation accounts the funds were allocated; consequently, the military services have lost visibility over these funds and do not know the extent to which they are being used to support GWOT. Despite having asked for the increase to support GWOT, DOD is not explicitly counting these additional funds when considering funding for GWOT.

In fiscal year 2004, the difference between supplemental appropriations available to the military services for GWOT military personnel and operation and maintenance expenses compared to reported obligations varied by service. For military personnel, the Navy and Marine Corps reported more in obligations than they had received in supplemental appropriations, resulting in differences or gaps of about \$40 million and \$30 million, respectively. Both the Army and Air Force received supplemental appropriations that exceeded their reported obligations for military personnel and the two services used these funds to cover operation and maintenance expenses related to GWOT, transferring \$801 million and \$113 million, respectively. For operation and maintenance, each of the military services reported more in obligations than it received in supplemental appropriations. The Army reported the largest gap, about \$4.3 billion, while the Air Force and Navy reported gaps of \$579 million and

about \$618 million, respectively. The Marine Corps reported the smallest gap, about \$195 million. Some service representatives noted that the gaps represented a small percentage of their annual military personnel and operation and maintenance appropriations. To cover the gaps, the Office of the Under Secretary of Defense (Comptroller) and the services exercised a number of authorities provided to them, including transferring funds and reducing or deferring planned spending for peacetime operations. For example, DOD covered about \$3 billion of the gap through transfers from the services' working capital funds, while the military services deferred a portion of their equipment and depot maintenance activities; various procurement actions; infrastructure projects; and other activities, such as training, until fiscal year 2005 or later. However, DOD did not explicitly take into account the funds provided through its annual appropriation that it intended for support of GWOT. If counted in fiscal year 2004, these amounts could have reduced the Army's GWOT gap, allowing it to defer fewer activities, and eliminated the GWOT gaps of the Air Force and Navy.

For fiscal year 2005, our analysis of reported obligations through May 2005 and the military services' forecasts for the full fiscal year as of June 2005 suggest that in some appropriations accounts the military services' reported obligations for the war could exceed their supplemental appropriations. This could require them to again use other authorities provided to them to cover the differences. Our projections suggest the services should have sufficient supplemental appropriations for military personnel expenses, but that there could be gaps for operation and maintenance expenses for the Army and the Marine Corps. The services' more detailed forecasts suggest a gap for military personnel expenses for the Air Force of about \$500 million, and gaps for operation and maintenance expenses for the Army and Air Force of about \$2.7 billion and about \$1 billion, respectively. Based on its midyear budget review, the Marine Corps believes that its current supplemental appropriations for the war will be sufficient to cover its reported obligations. To cover any gaps, DOD and the services plan to take a variety of actions, based on authorities provided to them, including reprogramming funds and reducing or deferring planned spending for peacetime operations. For example, in May 2005 more than \$800 million was reprogrammed from the military personnel accounts of the Air Force, Navy, Marine Corps, and Army National Guard to meet the Army's GWOT needs, while the Air Force has begun taking steps to decrease its peacetime flying hours and reduce or defer current year depot maintenance activities. However, DOD is again not explicitly considering the funds provided in its annual appropriation, which it described as having been requested to support GWOT. If counted in fiscal

year 2005, the amounts potentially could reduce the Army's and eliminate the Air Force's GWOT gaps and eliminate the need for reprogramming funds and reducing or deferring planned spending. As a result, the services continue to take actions that affect peacetime operations and run the risk of producing a large "bow wave" of higher spending pressures into the future.

To improve the visibility and accountability of DOD's use of funds for GWOT, we recommend that in future requests for supplemental appropriations, the Secretary of Defense adjust such requests to reflect the additional funding DOD requested and received in its annual appropriations to support GWOT and provide the Congress with an explanation of these adjustments. We further recommend that in addressing any future GWOT funding needs the Secretary consider the additional GWOT funding provided through the department's annual appropriation when assessing how to cover expenses for the war and document its decisions.

In written comments on a draft of this report, DOD did not concur with our recommendations. Regarding our recommendation that the Secretary of Defense adjust future supplemental appropriations requests to reflect the additional funding DOD requested and received in its annual appropriations to support GWOT and explain these adjustments to the Congress, DOD stated that its supplemental appropriations request accounts for all relevant adjustments to the annual appropriation bill. In fact, as stated in our report, although the Office of the Under Secretary of Defense (Comptroller) sought to adjust the department's supplemental appropriations request for fiscal year 2005 to reflect the additional funds DOD received in its annual appropriations that DOD identified as supporting GWOT, none of the military services provided the information requested. Instead, it was the Office of Management and Budget that actually made the adjustment in preparing the President's fiscal year 2005 supplemental appropriations request. We therefore believe that our recommendation has merit and have retained it. However, since DOD does not agree and the amount of funds available is substantial—more than \$10 billion annually—we have added a matter for congressional consideration to consider directing DOD, when it submits future supplemental appropriations requests, to provide an explanation of how such requests reflect the additional funding DOD requested and received in its annual appropriations to support GWOT. With respect to our recommendation that the Secretary of Defense also consider the additional GWOT funding provided through DOD's annual appropriations in

addressing any future GWOT funding needs, DOD commented that it considers all funding provided through the department's annual appropriation when addressing how to cover expenses for the war. We recognize that DOD reviews all available funding authorities when determining how to cover GWOT needs. However, since DOD has lost visibility of the funds provided through its annual appropriation that it requested to support GWOT, there is no documentation regarding how the department took these funds into account or whether it was applying the entire amount to cover its GWOT needs. We therefore continue to believe our recommendation has merit and have retained it, including expanding it to recommend that DOD also document its decisions. DOD's comments and our evaluation are discussed in detail in a later section of this report and the department's comments are reprinted in appendix II.

Background

About 90 percent of the costs associated with GWOT fall into two accounts—military personnel and operation and maintenance. Military personnel funds provided to support GWOT cover the pay and allowances of mobilized reservists as well as special payments or allowances for all qualifying military personnel, both active and reserve, such as Imminent Danger Pay and Family Separation Allowance. Operation and maintenance funds provided to support GWOT are used for a variety of purposes, including transportation of personnel, goods, and equipment; unit operating support costs; and intelligence, communications, and logistics support.

We have reported on several occasions, including in 1999 and 2003, that estimating the cost of ongoing military operations is difficult.⁸ This is because operational requirements can differ substantially during the fiscal year from what was assumed in preparing budget estimates. The result can be that operations can cost more or less than originally estimated. If operations cost more than originally estimated, DOD may use a number of authorities provided to it, including transferring and reprogramming funds and reducing or deferring planned spending for peacetime operations, to meet its needs. DOD uses “transfer authority” to shift funds between appropriation accounts, for example, between military personnel and

⁸GAO, *Military Operations: Some Funds for Fiscal Year 1999 Contingency Operations Will Be Available for Future Needs*, [GAO/NSIAD-99-244BR](#) (Washington, D.C.: Sept. 21, 1999), and *Military Operations: Fiscal Year 2003 Obligations Are Substantial, but May Result in Less Obligations Than Expected*, [GAO-03-1088](#) (Washington, D.C.: Sept. 17, 2003).

operation and maintenance. Transfer authority is granted by the Congress to DOD usually pursuant to specific provisions in authorization or appropriation acts.⁹ The ability to shift funds within a specific appropriation account, like operation and maintenance, is referred to as “reprogramming.” In general, DOD does not need statutory authority to reprogram funds within an account as long as the funds to be spent would be used for the same general purpose of the appropriation and the reprogramming does not violate any other specific statutory requirements or limitations. For example, DOD could reprogram operation and maintenance funds originally appropriated for training to cover increased fuel costs because both uses meet the general purpose of the operation and maintenance account, as long as the shift does not violate any other specific statutory prohibition or limitation.

Funding for GWOT in Fiscal Years 2004 and 2005 Was Provided in Annual and Supplemental Appropriations

In fiscal years 2004 and 2005, the military services received about \$52.4 billion and about \$62.1 billion, respectively, in supplemental appropriations for GWOT military personnel and operation and maintenance expenses. The Army, Air Force, and Navy also received funds for GWOT through their annual appropriations. However, DOD and the military services have lost visibility over these funds provided through annual appropriations, including knowing how much, if any, was used to support GWOT in fiscal years 2004 and 2005.

Supplemental Appropriations for GWOT

As shown in table 1, DOD received funding through supplemental appropriations to support GWOT in both fiscal years 2004 and 2005.

⁹An example of specific transfer authority is found in Section 8006 of the Department of Defense Appropriations Act, 2004 (Pub. L. No. 108-87 (Sept. 30, 2003)), which allows DOD to transfer excess cash balances from the Defense Working Capital Fund to the operation and maintenance appropriations in amounts as determined by the Secretary with the approval of the Office of Management and Budget.

Table 1: Supplemental Appropriations Available to the Military Services for GWOT Military Personnel and Operation and Maintenance Expenses in Fiscal Years 2004 and 2005

Dollars in millions		
Source	Available in fiscal year 2004	Available in fiscal year 2005
Supplemental appropriations		
Pub. L. No. 108-106	\$50,352	--
Pub. L. No. 108-287	120	\$17,251
Pub. L. No. 109-13	--	44,504
Iraqi Freedom Fund transfers	1,941	348
Total	\$52,413	\$62,103

Source: GAO analysis of Pub. L. No. 108-106, Pub. L. No. 108-287, Pub. L. No. 109-13, and Iraqi Freedom Fund transfers appropriated in Pub. L. No. 108-106 and Pub. L. No. 108-11.

Notes: Fiscal years 2004 and 2005 supplemental appropriations data exclude funding for classified programs. Fiscal year 2005 supplemental appropriations data are through August 2005.

To pay for the military personnel and operation and maintenance costs of GWOT in fiscal year 2004, the Congress appropriated about \$52.4 billion to DOD. Of the \$52.4 billion, the Congress provided the military services about \$50.4 billion in the Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, 2004.¹⁰ In addition, the services used \$120 million of the funds provided in late fiscal year 2004 through Title IX of the Department of Defense Appropriations Act, 2005.¹¹

DOD also transferred about \$1.9 billion from funds originally appropriated to the Iraqi Freedom Fund. The Iraqi Freedom Fund provides 2-year funds that can be transferred to the services' accounts for additional expenses for ongoing military operations in Iraq, operations authorized by the

¹⁰Pub. L. No. 108-106 (Nov. 6, 2003).

¹¹Pub. L. No. 108-287, Title IX (Aug. 5, 2004). DOD was provided \$25 billion through Title IX of the Department of Defense Appropriations Act, 2005, of which about \$17.4 billion was provided for military personnel and operation and maintenance expenses. These funds were available for use in fiscal years 2004 and 2005.

Authorization for Use of Military Force,¹² and other operations and related activities in support of GWOT. Of the \$1.9 billion, about \$860 million was provided through the Emergency Wartime Supplemental Appropriations Act, 2003,¹³ while about \$1.1 billion was provided through the Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, 2004.¹⁴

For fiscal year 2005, the military services had about \$62.1 billion available to pay for the military personnel and operation and maintenance costs of GWOT. Of this, the Congress appropriated about \$44.5 billion through the Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Tsunami Relief, 2005.¹⁵ The military services also had the remaining balance—about \$17.3 billion—that was provided through Title IX of the Department of Defense Appropriations Act, 2005, and was available for obligation in fiscal year 2005 to help pay for the military personnel and operation and maintenance costs of GWOT. In addition, as of July 2005, DOD had transferred about \$348 million from funds originally appropriated to the Iraqi Freedom Fund.

Some Annual Appropriations Described by DOD as for GWOT

In addition to funds DOD received through supplemental appropriations for GWOT, beginning in fiscal year 2003, the administration increased DOD's annual appropriation request by more than \$10 billion per year. DOD described these funds as being intended to support GWOT. According to a representative from the Office of the Under Secretary of Defense (Comptroller), in December 2001 the President directed that his annual budget submission for DOD be increased by about \$10 billion annually to support GWOT. Consequently, Program Budget Decision 736, entitled *Continuing the War on Terrorism* and dated January 31, 2002, was approved by the Under Secretary of Defense (Comptroller). Program Budget Decision 736 provided for increasing DOD's annual budget request in the amount of more than \$10 billion per year plus inflation in fiscal years 2003 through 2007 to enhance the department's efforts to respond to, or protect against, acts or threatened acts of terrorism against the United

¹²Pub. L. No. 107-40 (Sept. 18, 2001).

¹³Pub. L. No. 108-11, Title I, ch. 3 (Apr. 16, 2003).

¹⁴Pub. L. No. 108-106 (Nov. 6, 2003).

¹⁵Pub. L. No. 109-13 (May 11, 2005).

States. According to a DOD representative, unless action is taken to reduce these funds in future budgets, Program Budget Decision 736 provides for a permanent increase of about \$10 billion per year plus inflation to DOD's annual budget request to support military operations in the war on terrorism.

As shown in table 2, in fiscal years 2004 and 2005, the Army, Air Force, and Navy received additional funds in their annual appropriations—a total of about \$7.9 billion in fiscal year 2004 and about \$7.6 billion in fiscal year 2005—which DOD described as for support of military operations in the war on terrorism. According to DOD representatives, the Marine Corps did not receive an increase to its annual appropriation through Program Budget Decision 736.

Table 2: Annual Appropriations for the Military Services Included in Program Budget Decision 736 to Support GWOT in Fiscal Years 2004 and 2005

Dollars in millions		
Military service	Available in fiscal year 2004	Available in fiscal year 2005
Army	\$1,331.7	\$1,268.0
Air Force	3,506.4	3,512.3
Navy	3,013.1	2,818.1
Total	\$7,851.2	\$7,598.4

Source: GAO analysis of DOD data.

Note: GAO did not audit these data.

Under Program Budget Decision 736, a number of DOD programs were to receive increases in their proposed annual budgets in both fiscal years 2004 and 2005.¹⁶ For example, in fiscal year 2004, Program Budget Decision 736 indicates that about \$2.1 billion was for counterterrorism and force protection efforts, about \$1.2 billion for combat air patrols over U.S. cities, and about \$600 million for such things as depot maintenance and spare parts. Program Budget Decision 736 indicates funds were to be provided to these programs and others in fiscal years 2005 through 2007 as well. According to representatives of the Office of the Under Secretary of

¹⁶Program Budget Decision 736 also indicates some funds were provided to the Department of Energy.

Defense (Comptroller), some of the funds in Program Budget Decision 736 were intended to cover costs associated with Operation Noble Eagle while others were intended to cover costs associated with Operation Enduring Freedom.

For fiscal years 2004 and 2005, an Office of the Under Secretary of Defense (Comptroller) representative stated the additional funds provided through Program Budget Decision 736 were in the military services' various appropriations accounts. However, the Office of the Under Secretary of Defense (Comptroller) has no specific information about which programs or activities actually received the funds or how they were eventually expended, including whether they were used in support of GWOT. Once the services received these additional funds, they allocated them to their appropriations accounts based on their judgment of where the funds were most needed. DOD's accounting systems do not separately identify which appropriations accounts received these funds, and there are no reporting requirements for DOD to identify to which appropriation accounts the funds were allocated. While the military services also stated they received their share of the Program Budget Decision 736 funds as part of their fiscal year 2004 and fiscal year 2005 annual appropriations and that some of the funds were used for war-related expenses, they too could not identify which programs or activities received the funds and could not document what portion of these funds were used for war-related expenses. As a result, although DOD requested these funds to support GWOT, DOD and the military services cannot be certain that they were actually used to support GWOT-related activities.¹⁷

In developing the fiscal year 2005 request for supplemental appropriations to support GWOT, DOD took steps to adjust the request to reflect the receipt of funds provided through Program Budget Decision 736. In a November 2004 memorandum requesting that all DOD components provide their GWOT supplemental appropriations estimates for fiscal year 2005, the Office of the Under Secretary of Defense (Comptroller) stated the following with respect to funds that had already been provided through Program Budget Decision 736:

¹⁷Although DOD requested the funds associated with Program Budget Decision 736 to enhance the department's efforts to combat terrorism, the Congress did not legally restrict DOD from using them for non-GWOT activities.

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- Funding for GWOT missions previously added to the baseline budget (e.g., Program Budget Decision 736, *Continuing the War on Terrorism*) should be explicitly identified as a reduction to funding requests in those areas, as appropriate.
 - Component requests must consider that some funding is already in the baseline accounts. Program Budget Decision 736 provided funds for antiterrorism, continental United States combat air patrols, and force protection. The components' submissions should show the total requirement and note the level of funding already in the baseline for this purpose. The supplemental request will net out the available funding.

In the November 2004 memorandum the Office of the Under Secretary of Defense (Comptroller) further stated that the emergency supplemental appropriations request will address the incremental costs above the baseline funding needed to support specific forces and capabilities required to execute Operation Iraqi Freedom, Operation Enduring Freedom, and portions (to be determined) of Operation Noble Eagle. DOD described Operation Noble Eagle as including defending the United States from airborne attacks and maintaining U.S. air sovereignty. This operation had been included in the supplemental appropriations request for fiscal year 2004.

None of the military services provided the information requested in the November 2004 memorandum and instead the services requested funds for Operation Noble Eagle. Service budget representatives told us that Program Budget Decision 736 funds were considered as base program (e.g., annual appropriations) issues and not supplemental candidates. According to service budget representatives, they requested funds for Operation Noble Eagle in fiscal year 2005 that were in addition to the funds provided through Program Budget Decision 736. For example, the Navy requested \$53.3 million for incremental requirements above its baseline request. The Army requested more than \$1 billion in incremental requirements above its baseline. However, in preparing the fiscal year 2005 supplemental appropriations budget request, the Office of Management and Budget did not include Operation Noble Eagle in the President's budget request because funds had already been included in DOD's annual appropriation, as described in Program Budget Decision 736.

Most Fiscal Year 2004 Supplemental Appropriations for GWOT Were Less Than Reported Obligations; However, DOD Is Not Explicitly Counting Additional Funds Requested for GWOT in Its Annual Appropriation

In fiscal year 2004, the difference between supplemental appropriations available to the military services for GWOT military personnel and operation and maintenance expenses compared to reported obligations varied by service. For military personnel, the Navy and Marine Corps reported more in obligations than they received in supplemental appropriations, while for operation and maintenance each of the military services reported more in obligations than it received in supplemental appropriations. To cover the differences (gaps), DOD and the military services took several actions, including transferring funds and reducing or deferring planned spending for peacetime operations. In the case of the Army and Air Force, which each received supplemental appropriations that exceeded its reported obligations for military personnel, this included transferring \$801 million and \$113 million, respectively, to cover their GWOT operation and maintenance expenses. In some instances, these actions reduced DOD's flexibility to cover potential gaps in fiscal year 2005. DOD did not explicitly take into account the GWOT funds provided through its annual appropriation that DOD requested for GWOT to help cover the gaps. If it had taken these funds into account it could have reduced the Army's GWOT gap, eliminated the GWOT gaps of the Air Force and Navy, and been able to defer fewer activities.

Difference between Reported GWOT Obligations and Fiscal Year 2004 Supplemental Appropriations for GWOT Varied by Service

Within the military personnel accounts, as shown in table 3, the Navy and Marine Corps reported more obligations in support of GWOT than they received in supplemental appropriations. However, these reported gaps were a relatively small portion of the services' annual military personnel appropriations. For example, the Navy's reported gap of \$40.4 million represents less than 1 percent of its annual military personnel appropriation. In fiscal year 2004, both the Army and Air Force received supplemental appropriations that exceeded their reported obligations for military personnel. The Army and Air Force used these funds to cover operation and maintenance expenses related to GWOT, as discussed below.

Table 3: Military Personnel Fiscal Year 2004 GWOT Supplemental Appropriations and Reported Obligations

Dollars in millions				
Military personnel	Army	Air Force	Navy	Marine Corps
Total supplemental appropriations for GWOT	\$12,858.9	\$3,384.7	\$816.1	\$888.6
Obligations reported	11,972.0	3,272.0	856.5	918.3
Difference	\$886.9	\$112.7	\$(40.4)	\$(29.7)

Source: GAO analysis of Pub. L. No. 108-106, Iraqi Freedom Fund transfers appropriated in Pub. L. No. 108-106 and Pub. L. No. 108-11, and the *Consolidated Department of Defense Terrorist Response Cost Report* as of September 30, 2004.

Notes: GAO assessed the reliability of DOD's obligations data and found that while the data we report reflect the data used by DOD to advise the Congress on the cost of the war, they may not accurately reflect the true dollar value of GWOT obligations. Additionally, computed differences do not take into account GWOT funds requested in annual appropriations. Gaps are in parentheses.

Within the operation and maintenance accounts, as shown in table 4, in fiscal year 2004 each of the military services reported more in GWOT obligations than it received in supplemental appropriations. The Army reported the largest gap, about \$4.3 billion, while the Air Force and Navy reported gaps of \$579 million and about \$618 million, respectively. The Marine Corps reported the smallest gap, about \$195 million.

Table 4: Operation and Maintenance Fiscal Year 2004 GWOT Supplemental Appropriations and Reported Obligations

Dollars in millions				
Operation and Maintenance	Army	Air Force	Navy	Marine Corps
Total supplemental appropriations for GWOT	\$25,603.5	\$5,552.8	\$1,936.3	\$1,371.9
Obligations reported	29,907.7	6,131.8	2,554.7	1,566.9
Difference	\$(4,304.2)	\$(579.0)	\$(618.4)	\$(195.1)

Source: GAO analysis of Pub. L. No. 108-106, Iraqi Freedom Fund transfers appropriated in Pub. L. No. 108-106 and Pub. L. No. 108-11, and the *Consolidated Department of Defense Terrorist Response Cost Report* as of September 30, 2004.

Notes: GAO assessed the reliability of DOD's obligations data and found that while the data we report reflect the data used by DOD to advise the Congress on the cost of the war, they may not accurately reflect the true dollar value of GWOT obligations. Additionally, computed differences do not take into account GWOT funds requested in annual appropriations. Numbers may not subtract due to rounding. Gaps are in parentheses.

Variety of Actions Were Taken to Cover the Military Services' GWOT Gaps in Fiscal Year 2004

To cover the military services' gaps between reported fiscal year 2004 obligations and supplemental appropriations, the Office of the Under Secretary of Defense (Comptroller) and the military services used a number of authorities provided to them, including transferring funds and reducing or deferring planned spending for peacetime operations. While involving hundreds of millions or sometimes billions of dollars, in discussing the actions taken to cover the gaps, some service representatives noted that the gaps represented a small percentage of their annual appropriations. Within the services' annual operation and maintenance accounts we found that the gaps varied by service, ranging from a low of 1.7 percent of the Air Force's annual operation and maintenance appropriation to a high of 13.7 percent of the Army's annual operation and maintenance appropriation. In the services' annual military personnel accounts, all the gaps were less than 1 percent of their annual military personnel appropriations. However, DOD did not explicitly take into account the funds provided through its annual appropriations that it intended for support of GWOT. As discussed earlier, since DOD's accounting systems do not separately identify the portion of the department's annual appropriations that were described as having been requested to support GWOT and there are no reporting requirements for DOD to identify to which appropriation accounts the funds were allocated, the military services have lost visibility over these funds and do not know the extent to which they are being used to support GWOT. Consequently, despite having asked for the increase, DOD is not explicitly counting these additional funds when considering funding for GWOT and alternatively took actions that affected its peacetime operations, which may create spending pressures in fiscal year 2005 and later.

Military Service Actions to Address Fiscal Year 2004 GWOT Needs

Each of the military services projected a gap between reported obligations and supplemental appropriations at its midyear budget review. Service representatives told us these projected gaps were reduced over the course of fiscal year 2004 by reviewing their GWOT requirements and, in some instances, seeking to reduce or defer planned spending. With respect to the GWOT gaps faced by the services in fiscal year 2004, we were told the following:

- For fiscal year 2004, the Army's reported obligations in its operation and maintenance account exceeded its supplemental appropriations by about \$4.3 billion, substantially less than the \$10.9 billion it had projected in the account at its midyear budget review. To cover the \$4.3 billion, DOD and the Army took a number of actions, including

using internal resources and passing the remaining amount on to the Army's major commands to be absorbed by reducing or deferring planned peacetime spending to meet its GWOT needs. More specifically, to cover the Army's gap, the Under Secretary of Defense (Comptroller) transferred about \$3 billion from the working capital funds¹⁸ of the Army, Air Force, and Navy—including \$1.3 billion from the Army, about \$1.5 billion from the Air Force, and \$200 million from the Navy. In addition, about \$801 million was transferred from the Army's military personnel account to help cover the gap in the Army's operation and maintenance account, while about \$500 million was transferred from other DOD-wide accounts. The major Army commands absorbed the remainder. For example, to cover its portion of the gap, the Army Materiel Command reprioritized or deferred about \$184 million in depot maintenance until fiscal year 2005 for such programs as the Patriot and Hellfire missile systems. It also reduced or deferred the number of available training hours for some of its nondeployed units. However, Army Materiel Command representatives told us that in some instances, the training hours they deferred to help cover the fiscal year 2004 gap were deferred until fiscal year 2006.

- The Air Force's gap in its operation and maintenance account of about \$579 million was substantially less than the \$1.5 billion it had projected in the two accounts at its midyear budget review. To cover the \$579 million gap, the Air Force took a number of actions, including transferring \$113 million in funds available in its overall military personnel appropriation account, decreasing peacetime flying hours, reducing depot maintenance, and deferring facility sustainment restoration and modernization projects until fiscal year 2005. The Air Force's major commands also absorbed a portion of the gap. For example, the Air Combat Command absorbed its share of the GWOT gap, about \$92 million, by reducing or deferring its fiscal year 2004 peacetime spending. Approximately \$46 million, or half of the Air Combat Command's \$92 million share of the gap, was covered by reducing its peacetime flying hour program by about 6,800 hours. While reducing its peacetime flying hours helped the Air Combat Command

¹⁸A working capital fund is a revolving fund that relies on sales revenue rather than direct congressional appropriations to finance its operations. Customers, in this case, the military services, use appropriated funds, primarily operation and maintenance appropriations, to finance orders placed with a working capital fund. Working capital funds are intended to generate sufficient revenue to cover full operational costs and operate on a break-even basis over time, that is, neither to make a profit nor incur a loss.

cover its portion of the gap, Air Combat Command representatives told us the reduced training opportunities created a training backlog, which could affect pilot readiness for future combat missions.

- The Navy's combined gap for fiscal year 2004 of about \$659 million in its military personnel and operation and maintenance accounts was less than its midyear projection of \$931 million. To cover the \$659 million gap, the Navy canceled some peacetime spending, including various nonreadiness operation and maintenance spending and various infrastructure projects. Of the Navy's major commands, the Atlantic Fleet and Pacific Fleet absorbed the largest share of the gap for fiscal year 2004. For example, the Atlantic Fleet absorbed about \$110 million by reducing air operations and ship depot maintenance activities. Navy budget representatives noted that the gap represented about 1 percent of the total baseline funding available for aircraft operations and ship depot maintenance for the Navy in that fiscal year. In addition, the Navy canceled or deferred procurement actions for the MH-60R Seahawk helicopter, V-22 Osprey, F/A-18 Hornet, and Joint Tactical Radio System.
- The Marine Corps' combined gap in its military personnel and operation and maintenance appropriations accounts of about \$225 million for GWOT in fiscal year 2004 was also less than the \$446 million projected at its midyear budget review. To cover the \$225 million gap, the Marine Corps reduced or deferred spending in noncritical areas, such as facility improvements. The Navy provided the Marine Corps with funds from its base operating support and facilities sustainment restoration and modernization appropriations accounts and with \$121 million that was transferred to the Navy from the U.S. Transportation Command's Working Capital Fund. According to Marine Corps representatives, a portion of the gap was also absorbed by the Marine Corps' annual military personnel and operation and maintenance appropriations accounts.

The Navy provided us a detailed discussion of the process used in addressing gaps. A Navy budget representative said that the Navy analyzed its entire \$116.8 billion in baseline funding (which includes both the original \$114 billion baseline and the added \$2.8 billion for Program Budget Decision 736 initiatives) as potential financing sources for its GWOT needs. According to the Navy representative the Navy's internal analysis first looked at funding flexibility in baseline programs resulting from changes in current year execution. For example, certain baseline program requirements change from year to year as a result of development issues,

schedule and implementation delays, manufacturing problems, changes in requirements or inventory levels, and labor disputes. The accumulated value of those changes in a given execution year, such as fiscal year 2004, may have made any financial resources excess to fiscal year 2004 requirements available to fund GWOT needs. Although their specific identification as such would be lacking, they stated that previously baselined Program Budget Decision 736 requirements could have been included, by implication, as part of those deliberations. For example, by the end of fiscal year 2004, based on delayed execution, about \$136 million was reallocated from base infrastructure support, maintenance, and repair¹⁹ to fund Operation Iraqi Freedom costs. If insufficient funding sources were identified as part of an execution analysis, then it would be necessary to make affirmative decisions about reducing baseline programs to fund the balance of the GWOT needs. Those reductions, for the most part, had subsequent programmatic and financial impacts. Those changes required to support the increased GWOT needs were monitored and approved by the Office of the Under Secretary of Defense (Comptroller) staff during their annual budget and execution reviews. Some of the changes were recoverable (such as specific procurement and depot maintenance items considered deferrable and that could be funded with a subsequent year's money) and some changes were nonrecoverable (items considered nondeferrable current expenses, where the performance period has lapsed, but for which a subsequent year's funding is now available to fully meet that year's requirements). For example, of the Navy and Marine Corps' approximately \$1.6 billion in absorbed costs in all appropriation accounts for the Department of the Navy (\$1.4 billion was for Navy items, \$200 million was for Marine Corps items), nearly 40 percent of the fiscal year 2004 requirements were considered recoverable with subsequent year's funding. This included \$200 million for drawing down the Navy Working Capital Fund, which was included in the Navy's fiscal year 2005 supplemental appropriations request.

As previously discussed, DOD used the military services' working capital funds as a source of cash to provide funds for GWOT expenditures in fiscal year 2004. DOD's working capital funds finance the operations of two fundamentally different types of support organizations: stock fund activities, which provide spare parts and other items to military units and other customers, and industrial activities, which provide depot

¹⁹The \$136 million was initially provided as part of baseline funding for physical security improvements.

maintenance, research and development, and other services, such as those provided by the Defense Financial Accounting Service, Defense Information Systems Agency, Defense Commissary Agency, and U.S. Transportation Command. In fiscal year 2004, DOD transferred about \$3 billion from the military services' working capital funds to help cover the Army's gap between reported obligations and supplemental appropriations.

While such transfers from the services' working capital funds helped DOD cover its fiscal year 2004 gap, the transfers have left few working capital funds available to be used in fiscal year 2005. For example, to help cover the Army's operation and maintenance gap, about \$980 million was transferred from the U.S. Transportation Command's Transportation Working Capital Fund during fiscal year 2004. This transfer was made possible due to a surplus of transportation charges collected from the military services by the U.S. Transportation Command during the year. However, a U.S. Transportation Command representative told us the transfers have left the fund's balance below the minimum goal of \$517 million.²⁰ Specifically, with the transfer of almost \$1 billion in fiscal year 2004 to help cover the Army's operation and maintenance gap, as of July 2005, there was only \$168 million remaining in the fund, well below the minimum goal for the year. Further, the representative stated that the projected fund balance for the end of fiscal year 2005 is about \$231 million, still below the minimum goal.

DOD Did Not Explicitly Account for Funds Provided through Its Annual Appropriation That It Described as for GWOT When Determining How to Cover Its Fiscal Year 2004 Gaps

In determining how to cover the gaps between the services' supplemental appropriations and reported GWOT obligations for military personnel and operation and maintenance expenses, DOD did not explicitly take into account the almost \$7.9 billion in funds the Army, Air Force, and Navy received in their annual appropriations through Program Budget Decision 736 to help fund GWOT. This includes \$1.3 billion received by the Army, \$3.5 billion received by the Air Force, and \$3 billion received by the Navy. If counted in fiscal year 2004 and applied to the services' military personnel and operation and maintenance accounts, these amounts could have reduced the Army's need to transfer funds from other activities and eliminated the GWOT gaps for the Air Force and the Navy, as shown in table 5. However, the services acknowledge that they have lost visibility

²⁰See *Department of Defense Financial Management Regulation*, 7000.14-R, vol. 2B, ch. 9, para. 090103. The minimum goal represents 7 to 10 days of operational costs and cash adequate to meet 6 months of capital disbursements.

over the Program Budget Decision 736 funds after fiscal year 2003 and do not know whether any of the funds were used in support of GWOT.

Table 5: Comparison of the Military Services' Combined Supplemental and Annual Appropriations for Military Personnel and Operation and Maintenance for GWOT in Fiscal Year 2004 to Reported Obligations

Dollars in millions				
Military personnel and operation and maintenance	Army	Air Force	Navy	Marine Corps
Supplemental appropriations for GWOT	\$38,462.4	\$8,937.5	\$2,752.4	\$2,260.5
Annual appropriations for GWOT	1,331.7	3,506.4	3,013.1	0.0
Total supplemental and annual appropriations for GWOT	\$39,794.1	\$12,443.9	\$5,765.5	\$2,260.5
Total obligations reported	41,879.7	9,403.8	3,411.2	2,485.2
Difference	\$(2,085.6)	\$3,040.1	\$2,354.3	\$(224.7)

Source: GAO.

Notes: GAO assessed the reliability of DOD's obligations data and found that while the data we report reflect the data used by DOD to advise the Congress on the cost of the war, they may not accurately reflect the true dollar value of GWOT obligations. Gaps are in parentheses. GAO did not audit these data.

We discussed our analysis with DOD representatives at each of the services' budget offices, who disagreed with our depiction of Program Budget Decision 736. These representatives believed that our analysis should take into account the fact that the funds provided through Program Budget Decision 736 were included in DOD's baseline budget and therefore were already taken into account when considering funds available for GWOT. Service budget representatives made the following observations regarding the Program Budget Decision 736 funds:

- Once merged into those baseline budgets, full justification for funding is provided in the annual President's budget request. For example, increased funding for additional security personnel and physical security equipment were merged with existing program lines and not subsequently separately identified as to how they were initially funded or sustained over the years.
- Once the Program Budget Decision 736 funds were in the baseline budget, they were not in support of specific contingency operations, for which the Department of Defense Financial Management Regulation, Volume 12, Chapter 23, Contingency Operations, requires separate documentation and execution tracking, and no such requirement exists for "baselined" funds, other than the annual justification exhibits. That

is, Chapter 23 only requires reporting incremental costs (costs not already in the baseline), and not total costs.

- Subsequent to Program Budget Decision 736 additional requirements were placed on the services fiscal year 2004-2009 spending program without accompanying funds. To meet these requirements service budget representatives said that they looked in part to the funds provided in Program Budget Decision 736.

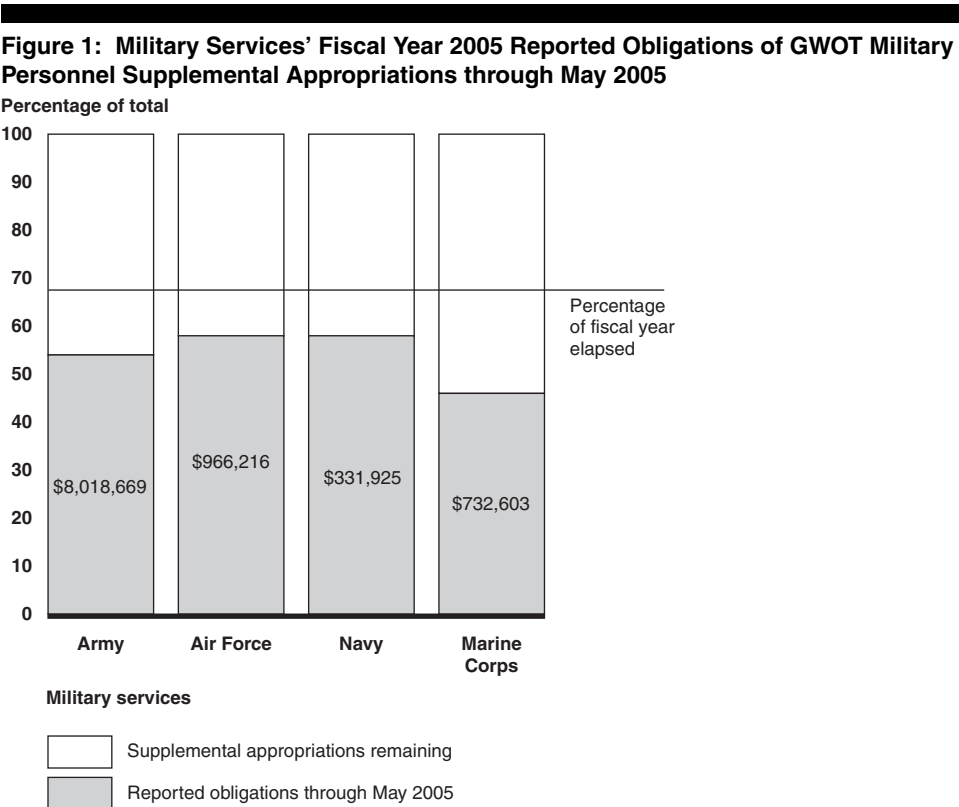
We recognize that DOD's annual budget submissions include justification for all the department's activities, including those funded through Program Budget Decision 736. However, the funds provided through Program Budget Decision 736 were identified as being in support of GWOT. While service budget representatives noted that the documentation and tracking requirements contained in the Department of Defense Financial Management Regulation, Volume 12, Chapter 23, Contingency Operations, do not apply to the funds provided through Program Budget Decision 736, we believe that DOD should have been tracking these funds in light of their connection to GWOT. While the services' budget representatives told us that they took the funds provided through Program Budget Decision 736 into account in addressing GWOT funding needs, we note that once these funds were merged into the services' baseline budgets visibility was lost so there is no assurance as to how the funds were taken into account or used.

Fiscal Year 2005 Reported Obligations for GWOT Could Exceed Supplemental Appropriations, Requiring the Military Services to Use Authorities Provided to Them to Cover the Differences

Our analysis of the military services' reported obligations for the first 8 months of fiscal year 2005 and the military services' forecasts as of June 2005 of full fiscal year 2005 costs suggest the services' military personnel and operation and maintenance GWOT obligations could exceed available supplemental appropriations for the war in some accounts. Our projections of reported GWOT obligations through May 2005 suggest the services should have sufficient supplemental appropriations for military personnel expenses in fiscal year 2005 but that there could be gaps for operation and maintenance expenses for the Army and the Marine Corps. The services' more detailed forecasts suggest a gap for military personnel expenses for the Air Force of about \$500 million, and gaps for operation and maintenance expenses for the Army and Air Force of about \$2.7 billion and about \$1 billion, respectively. The Marine Corps expects its supplemental appropriations will be sufficient to cover its GWOT costs. To cover any gaps and meet its GWOT needs, DOD and the services plan to take a variety of actions, including reprogramming funds from annual appropriations and reducing or deferring planned spending for peacetime operations.

Supplemental Appropriations for GWOT Military Personnel Costs in Fiscal Year 2005 Should Be Sufficient for All Services Except for the Air Force

Our assessment of reported obligations in fiscal year 2005 through May 2005 suggests that the military services should have sufficient supplemental appropriations for military personnel expenses in fiscal year 2005. As figure 1 shows, with 8 months, or about 67 percent, of the fiscal year gone, the Marine Corps has obligated 46 percent of its available supplemental appropriations; the Army 54 percent; and the Air Force and Navy 58 percent each.



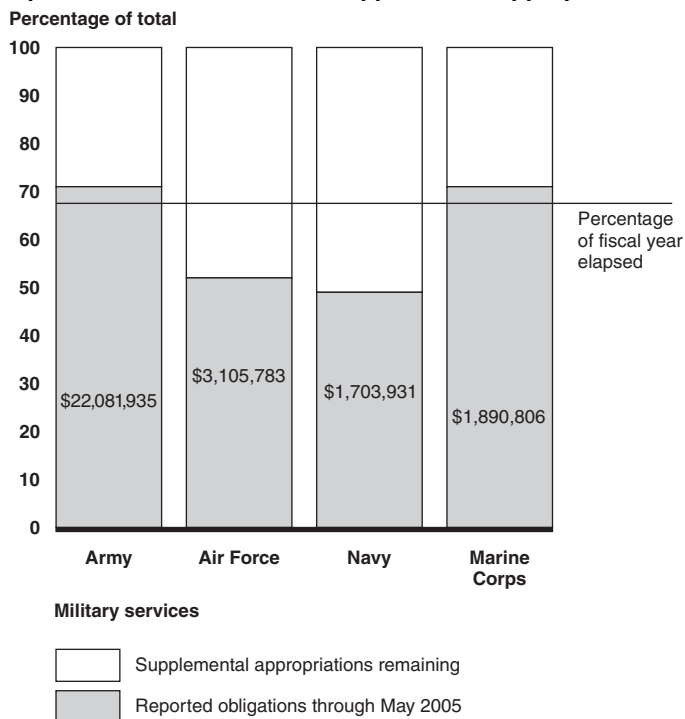
Source: GAO analysis of DOD data.

Notes: May 2005 represents 67 percent of the fiscal year. Reported obligations include those from both the active and reserve components. GAO assessed the reliability of DOD's obligations data and found that while the data we report reflect the data used by DOD to advise the Congress on the cost of the war, they may not accurately reflect the true dollar value of GWOT obligations. Additionally, computed differences do not take into account GWOT funds requested in annual appropriations. Dollars are in thousands.

Projections of GWOT Obligations through May 2005 Suggest Supplemental Appropriations for Some Operation and Maintenance Accounts Are Not Likely to Be Sufficient

Our assessment of reported obligations within the military services' operation and maintenance accounts through May 2005 suggests that the supplemental appropriations provided to the services for GWOT should be sufficient for the Air Force and Navy but not for the Army and Marine Corps. As shown in figure 2, the percentage of available supplemental appropriations obligated in the services' operation and maintenance accounts as of May 2005, ranged from 49 percent for the Navy and 52 percent for the Air Force to 71 percent for the Army and the Marine Corps. We recognize that funds are not obligated equally each month throughout the fiscal year. However, we believe that the further into the fiscal year the closer to 100 percent obligations should be relative to appropriations if all appropriated funds are likely to be obligated. Consequently, given these obligation rates, we believe that if the Army and Marine Corps continue to obligate funds at the current rate or higher, their reported obligations within the operation and maintenance accounts could exceed available supplemental appropriations in fiscal year 2005, requiring them to use other authorities provided to them to cover the difference. However, as discussed below, the Air Force believes it will have an operation and maintenance gap, while the Marine Corps believes it will have sufficient funds for operation and maintenance.

Figure 2: Military Services' Fiscal Year 2005 Reported Obligations of GWOT Operation and Maintenance Supplemental Appropriations through May 2005



Source: GAO analysis of DOD data.

Notes: May 2005 represents 67 percent of the fiscal year. Reported obligations include those from both the active and reserve components. GAO assessed the reliability of DOD's obligations data and found that while the data we report reflect the data used by DOD to advise the Congress on the cost of the war, they may not accurately reflect the true dollar value of GWOT obligations. Additionally, computed differences do not take into account GWOT funds requested in annual appropriations. Dollars are in thousands.

Fiscal Year 2005 Midyear Budget Review Forecasts of the Military Services

Each of the military services completed a midyear budget review for the Office of the Under Secretary of Defense (Comptroller), including a forecast of its full fiscal year 2005 GWOT needs. The Army concluded that it would not have sufficient supplemental appropriations to cover its projected GWOT operation and maintenance obligations, while the Air Force indicated its combined military personnel and operation and maintenance obligations would exceed available supplemental appropriations. With respect to the Army's and Air Force's midyear budget review projections:

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- The Army forecast a GWOT gap of about \$2.7 billion in its operation and maintenance account, of which a large component—about \$1 billion—is attributed to higher fuel costs due to, among other things, the increase in June 2005 of DOD's composite fuel rate from \$56.28 per barrel to \$73.08. Other components of the forecasted gap include support of the Army's modular force initiative;²¹ higher spending in the second half of fiscal year 2005 as compared to the first half, resulting from deferred spending early in the fiscal year; and higher spending on recruiting and retention efforts, primarily for the Army Reserve. According to the Army, the modular force initiative and its reconstitution and reset efforts are being treated as GWOT costs in fiscal year 2005.
 - The Air Force forecast a GWOT gap of about \$500 million in its military personnel account and about \$1 billion in its operation and maintenance account, for a total gap of about \$1.5 billion. Air Force representatives attributed the gap in its military personnel account primarily to having higher-than-anticipated end-strength levels, and stated that the \$1 billion gap in its operation and maintenance account is to replenish the Transportation Working Capital Fund, which was drawn down last year to help cover the Army's fiscal year 2004 GWOT gap. Regarding the projected military personnel gap, Air Force representatives stated that funds were subsequently transferred to pay for prior obligations at higher-than-anticipated end-strength levels. Since then, the Air Force has corrected the end-strength imbalance and expects to be within end strength for GWOT during the remainder of the fiscal year. As a result of these actions, Air Force representatives no longer project a military personnel gap for GWOT in fiscal year 2005.

The Navy projected a small gap of about \$36 million for GWOT at the time of its midyear budget review, which it has since covered with cost savings from shifting the bulk of its transportation of equipment and supplies from air to sea. The Marine Corps indicated that its supplemental appropriations should be sufficient to cover reported GWOT obligations for fiscal year 2005. In considering the services' midyear budget reviews, our analysis of

²¹The Army's modular force initiative, which has been referred to as the largest Army reorganization in 50 years, encompasses the Army's total force—active Army, National Guard, and Army Reserve—and directly affects not only the Army's combat units, but related support and command and control. The foundation of the Army modular force initiative is the creation of brigade combat teams—brigade-sized units that will have a common organizational design and will increase the pool of available units for deployment.

the Navy and Marine Corps GWOT obligations indicates substantial under execution in the Navy's operation and maintenance account and the Marine Corps's military personnel account. In response, the Navy stated that it expects its rate of obligating GWOT funds to increase toward the end of fiscal year 2005 due to, among other things, providing additional support in theatre and on the ground in Iraq as part of Joint Sourcing.²² According to a Navy representative, the Navy had about 5,000 personnel stationed on the ground in Kuwait, Iraq, and Afghanistan at the end of fiscal year 2004. By the end of fiscal year 2005, the Navy plans to have about 8,500 personnel in theatre with the additional personnel having begun to deploy in May 2005. The Marine Corps stated it expects to obligate an additional \$220 million in military personnel funds due to the new death gratuity benefit, while another \$265 million in military personnel funds will be used to replenish the Marine Corps's annual appropriation for funds reprogrammed earlier in the fiscal year to buy additional body-armor and other equipment to counter the use of improvised explosive devices in Iraq.

DOD Plans to Take a Variety of Actions to Address Its Fiscal Year 2005 GWOT Needs

To cover the forecasted GWOT needs for fiscal year 2005, DOD, the Army, and the Air Force have identified a number of steps they plan to take. These include exercising a number of authorities provided to them, such as transferring and reprogramming funds from annual appropriations and reducing or deferring planned spending for peacetime operations.

The Army, the service with the largest forecasted gap in its operation and maintenance account, plans to take a variety of actions to meet its fiscal year 2005 GWOT funding needs. Some actions include taking steps to transfer or reprogram funds. For example, DOD reprogrammed more than \$800 million in funds in May 2005 from the military personnel accounts of the Air Force,²³ Navy, Marine Corps, and Army National Guard, and \$250 million from the Army's Working Capital Fund, to the Army to meet urgent GWOT needs. Other actions the Army plans to take to help fund GWOT in fiscal year 2005 involve reducing or deferring current costs. For

²²Joint Sourcing refers to the use of Navy and Air Force personnel to support and meet the requirements of the Army. Personnel provided through Joint Sourcing include medical, supply, logistics, intelligence, and security personnel; construction battalions; military police; and others.

²³Although the Air Force reported a projected gap in supplemental appropriations for military personnel through the end of the fiscal year, some funds were reprogrammed from the Air Force to prevent the Army from running out of operating funds in May 2005..

example, the Army reports that it has been able to reduce its fiscal year 2005 Logistics Civil Augmentation Program (LOGCAP)²⁴ contract costs by about \$890 million by reviewing and reducing current LOGCAP requirements. In discussing its plans to meet its fiscal year 2005 GWOT needs, the Army plans to use any surplus funds in its working capital fund to help cover any fiscal year 2005 GWOT gaps. However, due to the transfers from the services' working capital funds to cover the fiscal year 2004 gaps, as discussed above, few assets remain elsewhere to cover the Army's fiscal year 2005 GWOT gap. Should the Army's GWOT gap be larger than forecasted, the Army may have to absorb the difference in its annual appropriation.

The Air Force also plans to take a variety of actions to address the gap between its supplemental appropriations and reported operation and maintenance obligations for GWOT. These include decreasing peacetime flying hours by \$700 million, reducing or deferring depot maintenance activities by \$400 million, and freezing activities involving facility sustainment and restoration modernization projects. Other areas that could be targeted for cost reductions or deferments include noncritical travel and other supplies and equipment.

DOD Is Not Explicitly Considering Funds in Its Annual Appropriations for GWOT to Cover Its Projected Fiscal Year 2005 Gaps

To meet its GWOT needs in fiscal year 2005, DOD is again not explicitly considering the Program Budget Decision 736 funds to support GWOT that were provided to the military services through their annual appropriations. However, as discussed earlier, unlike in fiscal year 2004, in fiscal year 2005 some of the funds provided in Program Budget Decision 736 are being used to fund Operation Noble Eagle, which had previously been funded as part of GWOT through supplemental appropriations. In fiscal year 2004 DOD had included \$2.2 billion in its budget request for Operation Noble Eagle. Adjusting for Operation Noble Eagle at the fiscal year 2004 funding level would result in more than \$5.4 billion in funds included in Program Budget Decision 736 in support of GWOT for the military services remaining available in fiscal year 2005. If counted in fiscal year 2005, the amounts potentially could reduce the need for reprogrammings from other activities

²⁴LOGCAP is an Army program that plans for the use of a private sector contractor to support worldwide contingency operations. Examples of the types of support available include laundry and bath, food service, sanitation, billeting, maintenance, and power generation. LOGCAP has been used extensively to support U.S. forces in recent operations in southwest Asia, with more than \$15 billion in estimated work as of January 2005.

and could reduce the Army's and eliminate the Air Force's GWOT gaps. Instead, as in fiscal year 2004, the Office of the Under Secretary of Defense (Comptroller) and the military services will again meet those needs by taking actions that may affect DOD's peacetime operations, such as reducing or deferring planned spending. In some instances, these funding reductions and deferments could add to future spending pressures in fiscal year 2006 or potentially in later years and run the risk of producing a large "bow wave" of requirements. This can have both short-term and long-term impacts. In the short term, deferring spending can lead to higher costs than expected later in the current fiscal year, which may need to be covered by additional transfers and reprogrammings. In the long term, continued deferments can lead to higher costs.

Conclusions

The extent to which one considers that GWOT funding has been sufficient depends on whether one counts both funding provided through supplemental appropriations and funding included in DOD's annual appropriation, which DOD requested for GWOT. The administration increased DOD's annual appropriation request by more than \$10 billion annually beginning in fiscal year 2003 to support GWOT, with the military services receiving about \$7.9 billion of that amount in fiscal year 2004 and about \$7.6 billion in fiscal year 2005. The military services absorbed the increase into their annual appropriations and allocated it based on their judgment of where the funds were most needed. Since DOD's accounting systems do not separately identify these additional appropriations and there are no reporting requirements for DOD to identify to which appropriation accounts the funds were allocated, the military services have lost visibility over these funds and do not know the extent to which they are being used to support GWOT. Consequently, despite having asked for the increase, DOD is not explicitly counting the more than \$10 billion when considering funding for GWOT. In fiscal year 2004, the military services reported obligations in support of GWOT that were above the supplemental funds appropriated by the Congress. In response, DOD used authorities granted to it, including transferring funds and reducing or deferring planned spending for peacetime operations, to cover the gaps. However, if the additional funds that were included in DOD's annual appropriation to help fund the war are included in the analysis, those funds could potentially have reduced the Army's gap and eliminated the gap for the Air Force and Navy in fiscal year 2004. In fiscal year 2005, the Army and the Air Force are again projecting obligations for the war above their supplemental appropriations, and DOD is taking steps to cover the gaps. As was the case in fiscal year 2004, the additional funds that were included in DOD's annual

appropriation to help fund the war potentially could reduce or eliminate the projected gaps for the Army and Air Force. With military operations in Iraq and Afghanistan ongoing, and the likely need for DOD to request additional funds to support GWOT, it is important that DOD fulfill its role as a steward of taxpayer funds by taking steps to account for all the funds it receives for the war.

Recommendations for Executive Action

To improve the visibility and accountability of DOD's use of funds for GWOT, we recommend that the Secretary of Defense, in future requests for supplemental appropriations, adjust such requests to reflect the additional funds DOD requested and received in its annual appropriations to support GWOT and provide the Congress with an explanation of these adjustments. We further recommend that in addressing any future GWOT funding needs the Secretary consider the additional GWOT funds provided through the department's annual appropriation when assessing how to cover expenses for the war and document its decisions.

Matter for Congressional Consideration

Because DOD did not concur with our recommendation to adjust its future supplemental appropriations requests to reflect the additional funds the department requested and received in its annual appropriations to support GWOT and explain these adjustments to the Congress, we have no confidence that the Congress will receive the information that we believe the Congress needs to properly assess DOD's requests for supplemental appropriations to support the war. Further, because the amount of funds DOD is receiving to support GWOT through its annual appropriations is substantial—more than \$10 billion annually—the Congress should consider directing DOD, when it submits future supplemental appropriations requests, to provide an explanation of how such requests reflect the funds DOD requested and already received in its annual appropriations to support GWOT.

Agency Comments and Our Evaluation

DOD provided written comments on a draft of this report. Its comments are discussed below and are reprinted in appendix II.

DOD did not concur with our recommendations. DOD further commented that the report confuses a Program Budget Decision, which is an internal document, with the President's budget, which is the official explanation of DOD's budget request, and that funds are not appropriated in accordance

with a Program Budget Decision. In addition, DOD commented that the report's focus on the Program Budget Decision results in the inaccurate conclusion that if DOD had considered these funds it could have reduced the Army's GWOT gap and eliminated the GWOT gaps of the Air Force and Navy. In that regard, DOD stated that the only resources available to the department are those appropriated by the Congress and these funds were considered when determining the needs and expenses of the war.

We recognize that a Program Budget Decision is an internal document and that the President's budget is the official explanation of DOD's budget request and that funds appropriated are determined by the Congress—not by either a Program Budget Decision or the President's budget. In our report, we refer to Program Budget Decision 736 and the President's budget not to establish how much money the Congress appropriated to support GWOT, but to establish how much money DOD intended for GWOT. As stated in our report, according to a representative from the Office of the Under Secretary of Defense (Comptroller), in December 2001 the President directed that his annual budget submission for DOD be increased by about \$10 billion annually to support GWOT. Consequently, Program Budget Decision 736, entitled *Continuing the War on Terrorism* and dated January 31, 2002, was approved by the Under Secretary of Defense (Comptroller). Program Budget Decision 736 provided for increasing DOD's annual budget request in the amount of more than \$10 billion per year plus inflation in fiscal years 2003 through 2007 to enhance the department's efforts to respond to, or protect against, acts or threatened acts of terrorism against the United States. We therefore believe that since the funds referenced in Program Budget Decision 736 were specifically identified as being requested in support of GWOT, DOD should maintain visibility over how these funds were used to support GWOT. We believe that if DOD asks for a significant increase in appropriations and explains that the increase is needed to support GWOT, DOD should be able to show that it actually used those funds for GWOT.

DOD did not concur with our recommendations that the Secretary of Defense (1) adjust future supplemental appropriations requests to reflect the additional funds DOD received in its annual appropriations to support GWOT and explain these adjustments to the Congress and (2) also consider the additional GWOT funds provided through DOD's annual appropriations in addressing any future GWOT funding needs. In commenting on our first recommendation, DOD stated that the department's supplemental appropriations request accounts for all relevant adjustments to the annual appropriation bill. DOD also commented that it builds and submits

supplemental appropriations requests based on the incremental cost of the operation, which it described as those additional costs to the DOD component conducting the operation that are not covered in their existing budgets and would not have been incurred had they not been supporting the contingency. It is not apparent, however, that DOD's request for supplemental appropriations for fiscal year 2004 in fact reflected amounts already appropriated. The President's fiscal year 2005 supplemental appropriations request did reflect amounts already enacted, but only because the Office of Management and Budget, not DOD, made the adjustments.

As we discuss in this report, DOD included a \$10 billion increase in its fiscal year 2004 annual appropriations in order to support GWOT. In its Program Budget Decision 736, DOD stated that \$1.2 billion of that amount would be used for combat air patrols over U.S. cities, which is part of Operation Noble Eagle. At the same time, in its fiscal year 2004 supplemental appropriations request for GWOT, DOD included funding for Operation Noble Eagle, but without explaining why it needed amounts in addition to those that the Congress already provided.

In addition, although DOD stated that the department's supplemental appropriations request accounts for all relevant adjustments to the annual appropriation bill, as stated in our report, in a November 2004 memorandum issued by the Office of the Under Secretary of Defense (Comptroller) the Comptroller's office sought to adjust DOD's supplemental appropriations request for fiscal year 2005 to reflect funds already provided. In that memorandum, the Office of the Under Secretary of Defense (Comptroller) stated that funding in fiscal year 2005 for GWOT missions previously added to the baseline budget (e.g., Program Budget Decision 736, *Continuing the War on Terrorism*) should be explicitly identified as a reduction to funding requests in those areas, as appropriate. The memorandum further requested that the components' submissions should show the total requirement and note the level of funding already in the baseline for this purpose. The memorandum directed that the services' supplemental appropriations requests net out the available funding and address the incremental costs above the baseline funding needed to support specific forces and capabilities required to execute Operation Iraqi Freedom, Operation Enduring Freedom, and portions (to be determined) of Operation Noble Eagle. However, as stated in our report, none of the military services provided the information requested in the November 2004 memorandum and instead the military services requested supplemental appropriations for Operation Noble Eagle. Nevertheless, in preparing the

fiscal year 2005 supplemental appropriations request, the Office of Management and Budget did not include Operation Noble Eagle in the President's budget request because funds had already been included in DOD's annual appropriation, pursuant to DOD's request, as described in Program Budget Decision 736.

We believe that our recommendation has merit and have retained it. In addition, since DOD does not agree with the recommendation and the amount of funds at issue is substantial—more than \$10 billion annually—we have added a matter for congressional consideration. Specifically, the Congress should direct DOD, when it submits future supplemental appropriations requests, to provide an explanation of how such requests reflect the additional funds that were addressed in Program Budget Decision 736 and which DOD requested and received in its annual appropriations to support GWOT.

With respect to our second recommendation, DOD commented that it considers all funds provided through the department's annual appropriation when addressing how to cover expenses for the war. We recognize that DOD reviews all funds when determining how to cover its GWOT needs. However, DOD, as it explained in Program Budget Decision 736, intended increased annual appropriations to support GWOT, but then lost visibility of the funds requested. There is no documentation, therefore, regarding how the department took the funds that it requested into account or whether it was applying the entire amount to cover its GWOT needs. We believe that since DOD stated that the additional annual funds were needed to support GWOT, and DOD continues to include this funding in its request for annual appropriations, to fulfill its role as a steward of taxpayer funds DOD should explicitly maintain visibility over how these funds are used to support GWOT and consider the entire amount to be available for GWOT. We therefore continue to believe our recommendation has merit and have retained it, including expanding it to recommend that DOD also document its decisions.

We are sending copies of this report to other 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 have any questions regarding 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. Principal contributors to this report were Steve Sternlieb, Assistant Director; Richard K. Geiger; Wesley A. Johnson; James Nelson; and David Mayfield.

A handwritten signature in black ink that reads "Sharon L. Pickup". The signature is written in a cursive style with a large, stylized "S" and "P".

Sharon L. Pickup
Director, Defense Capabilities and Management

List of Congressional Committees

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

The Honorable Judd Gregg
Chairman
The Honorable Kent Conrad
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Committee on the Budget
House of Representatives

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

Scope and Methodology

To identify funding for the Global War on Terrorism (GWOT), we reviewed applicable annual and supplemental Department of Defense (DOD) appropriations in fiscal years 2004 and 2005. We also reviewed DOD reports on the transfer of funds from the Iraqi Freedom Fund to support GWOT activities, and DOD reports on the transfer or reprogramming of funds among various appropriation accounts or budget activities to support GWOT. In addition, we reviewed material related to the decision to add funds to DOD's annual appropriation to support GWOT, specifically Program Budget Decision 736, entitled *Continuing the War on Terrorism*, dated January 31, 2002, and approved by the Under Secretary of Defense (Comptroller).

To assess the extent of differences between supplemental appropriations and reported obligations for GWOT, we compared supplemental appropriations provided to the military services to reported obligations in fiscal year 2004 and reported obligations through May 2005 and assessed obligations through May 2005 for fiscal year 2005.¹ Specifically, we identified applicable supplemental appropriations in fiscal years 2004 and 2005 and compared them to the reported amounts obligated by each service in DOD's *Supplemental and Cost of War Execution Reports*.² We limited our review to the obligation of funds appropriated for military personnel and operation and maintenance for the Army, Air Force, Navy, and Marine Corps, for both active and reserve forces, because they represented the majority of the funds obligated in fiscal years 2004 and 2005, about 90 percent in each year. We excluded classified programs from our review, because obligations for those programs are not reported in DOD's *Supplemental and Cost of War Execution Reports*. We did not review the obligation of funds for investment, which are used for procurement; military construction; and research, development, test, and evaluation. In addition, for fiscal year 2005, we reviewed the latest available obligation data and held discussions with the military services on the results of their midyear budget reviews. We compared the services' reported military personnel and operation and maintenance obligations through May 2005, the latest available obligation data at the time of our review, to the supplemental appropriations provided to calculate the

¹DOD's financial systems only capture total obligations, and the services use various management information systems to identify incremental obligations and to estimate costs.

²Through December 2004, these reports were called the *Consolidated Department of Defense Terrorist Response Cost Reports*. Beginning in January 2005, DOD renamed these reports the *Supplemental and Cost of War Execution Reports*.

proportion of funds obligated through May. We then compared those proportions to the proportion of the fiscal year that has elapsed through May—which represents 67 percent of the fiscal year—to assess whether based on obligations through May funding is likely to be adequate. We recognize that funds are not obligated equally each month throughout the fiscal year. However, we believe that the further into the fiscal year the closer to 100 percent obligations should be relative to appropriations if all appropriated funds are likely to be obligated.

GWOT obligations provided in this report are DOD's claimed obligations as reported in the *Supplemental and Cost of War Execution Reports*. In related work,³ we have reported these data to be of questionable reliability. For example, we found financial management systems with acknowledged weaknesses, a lack of systematic processes to ensure accurate data entry, failure to use actual data when it was available, and improperly categorized costs. Therefore, we are unable to ensure that DOD's reported obligations for GWOT are complete, reliable, and accurate. Consequently, the gaps we identify between supplemental appropriations and DOD's reported obligations may not reliably reflect true differences between supplemental appropriations and obligations and therefore should be considered approximations. Despite the uncertainty about the obligation data, we are reporting the information because it is the only data available on overall GWOT costs and 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 the Congress on the cost of the war. As such, obligation data provided in this report reflect DOD reported obligations, however unreliable those reports may be.

To determine actions taken by DOD and the services to cover any identified gaps between reported obligations and supplemental appropriations for GWOT, we held discussions with DOD representatives from the Office of the Under Secretary of Defense (Comptroller) and the Army, Air Force, Navy, and Marine Corps. At the major command level, we discussed with service representatives any actions taken to cover gaps and the impacts of actions taken to cover those gaps on their budgeted peacetime operations.

³GAO, *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).

We interviewed DOD representatives regarding GWOT obligations and funding for fiscal years 2004 and 2005 in the following locations:

- Office of the Under Secretary of Defense (Comptroller), Washington, D.C.
- Department of the Army, Headquarters, Washington, D.C.
- Army Forces Command and Headquarters, Third Army, Fort McPherson, Georgia.
- Army Installation Management Agency, Arlington, Virginia.
- Army Materiel Command, Fort Belvoir, Virginia.
- Army Pacific Command, Fort Shafter, Hawaii.
- Department of the Air Force, Headquarters, Washington, D.C.
- Air Force Air Combat Command, Langley Air Force Base, Virginia.
- Air Force Air Mobility Command, and Headquarters, U.S. Transportation Command, Scott Air Force Base, Illinois.
- Department of the Navy, Headquarters, Washington, D.C.
- Navy Atlantic Fleet Command, Norfolk Naval Base, Virginia.
- Navy Pacific Fleet Command, Pearl Harbor, Hawaii.
- Marine Corps, Headquarters, Washington, D.C.
- Marine Corps Forces, Pacific, Camp Smith, Hawaii.

We performed our work from November 2004 through August 2005 in accordance with generally accepted government auditing standards.

Comments from the Department of Defense



COMPTROLLER

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

SEP 16 2005

Mr. David Walker
Comptroller General
U.S. Government Accountability Office
441 G Street, NW
Room 7100
Washington, DC 20548

Dear Mr. Walker:

This is the Department of Defense (DoD) response to the Government Accountability Office (GAO) Draft Report GAO-05-767, titled "GLOBAL WAR ON TERRORISM: DoD Should Consider All Funds Requested for the War When Determining Needs and Covering Expenses," dated August 18, 2005, (GAO Code 350616). The Department appreciates the opportunity to review the draft report and provide comments.

The Department disagrees with the recommendations made in the GAO draft report. The report confuses a Program Budget Decision (PBD), which is an internal management document, with the President's Budget (PB), which is the official explanation of the Department of Defense (DoD) budget request. Funds are not appropriated in accordance with a PBD.

The report's focus on the PBD results in the inaccurate conclusion that, "if DoD had considered these funds, it could have reduced the Army's GWOT gap and eliminated the GWOT gaps of the Air Force and Navy." A PBD is not a source of funding. The only resources available to the Department are those appropriated by the Congress, and these funds were considered when determining the needs and expenses of the war.

Thank you for the opportunity to provide the Department's response.

Sincerely,

A handwritten signature in black ink, reading "David L. Norquist".

David L. Norquist
Acting Principal Deputy

Enclosures:
As stated

Department of Defense Comments
GAO-05-767 (GAO Code 350616)

SUBJECT: GAO Draft Report, August 18, 2005, titled "GLOBAL WAR ON TERRORISM: DOD Should Consider All Funds Requested for the War When Determining Needs and Covering Expenses." (GAO Code 350616)

DISCUSSION:

- The GAO report outlined two recommendations.
- The Department of Defense (DoD) nonconcurs on the findings.
- A restatement of the recommendation and the Department's comments follows:

RECOMMENDATION 1: The GAO recommended that the Secretary of Defense adjust future requests for supplemental appropriations to reflect the additional funding it requested and received in its annual appropriations to support the Global War on Terrorism and provide the Congress with an explanation of these adjustments.

DoD COMMENT TO RECOMMENDATION 1: Nonconcur. The Department's supplemental request accounts for all relevant adjustments to the annual appropriation bill. The Department of Defense builds and submits supplemental requests based on the incremental cost of the operation. Incremental costs are those additional costs to the DoD Component conducting the operation that are not covered in their existing budgets and would not have been incurred had they not been supporting the contingency.

RECOMMENDATION 2: The GAO recommended that the Secretary of Defense, in addressing any future Global War on Terrorism (GWOT) funding needs, consider the additional Global War on Terrorism funding provided through the Department's annual appropriation when addressing how to cover expenses for the war.

DoD COMMENT TO RECOMMENDATION 2: Nonconcur. The Department considers all funding provided through the Department's annual appropriation when addressing how to cover expenses for the war. All of the military departments conduct extensive internal reviews of all their funds for assets (savings) and offsets (directed programmatic cuts) which can be reprogrammed to finance unanticipated GWOT costs.

Enclosure

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