

November 2007

GLOBAL WAR ON TERRORISM

DOD Needs to Take Action to Encourage Fiscal Discipline and Optimize the Use of Tools Intended to Improve GWOT Cost Reporting



Report Documentation Page

Form Approved
OMB No. 0704-0188

Public reporting burden for the collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to a penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number.

1. REPORT DATE NOV 2007		2. REPORT TYPE		3. DATES COVERED 00-00-2007 to 00-00-2007	
4. TITLE AND SUBTITLE Global War on Terrorism. DOD Needs to Take Action to Encourage Fiscal Discipline and Optimize the Use of Tools Intended to Improve GWOT Cost Reporting				5a. CONTRACT NUMBER	
				5b. GRANT NUMBER	
				5c. PROGRAM ELEMENT NUMBER	
6. AUTHOR(S)				5d. PROJECT NUMBER	
				5e. TASK NUMBER	
				5f. WORK UNIT NUMBER	
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) U.S. Government Accountability Office, 441 G Street NW, Washington, DC, 20548				8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)				10. SPONSOR/MONITOR'S ACRONYM(S)	
				11. SPONSOR/MONITOR'S REPORT NUMBER(S)	
12. DISTRIBUTION/AVAILABILITY STATEMENT Approved for public release; distribution unlimited					
13. SUPPLEMENTARY NOTES					
14. ABSTRACT					
15. SUBJECT TERMS					
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT Same as Report (SAR)	18. NUMBER OF PAGES 64	19a. NAME OF RESPONSIBLE PERSON
a. REPORT unclassified	b. ABSTRACT unclassified	c. THIS PAGE unclassified			



Highlights of [GAO-08-68](#), a report to congressional committees

Why GAO Did This Study

Since the September 2001 terrorist attacks, Congress has provided about \$542.9 billion, as of May 2007, to the Department of Defense (DOD) for the Global War on Terrorism (GWOT). Prior GAO reports have found DOD's reported GWOT obligation data unreliable and problems with transparency over certain costs. DOD made changes to its reporting procedures, requiring components to perform a monthly variance analysis on obligation data and to include affirmation statements attesting to the accuracy of cost data.

Under the Comptroller General's authority to conduct evaluations on his own initiative, GAO assessed (1) the outlook of DOD's reported GWOT obligations for fiscal year 2007 and funding requests for fiscal year 2008, (2) the effect of changes in DOD's GWOT funding guidance, and (3) DOD's progress in implementing variance analysis and affirmation statements.

For this engagement, GAO analyzed fiscal year 2007 GWOT-related appropriations and reported obligations, as well as DOD's corrective actions.

What GAO Recommends

GAO makes 11 recommendations on GWOT funding requests and the reliability of cost reports, including better defining incremental and base costs, building more funding into DOD's base budget, and performing additional analyses on variances. DOD generally agreed with the recommendations.

To view the full product, including the scope and methodology, click on [GAO-08-68](#). For more information, contact Sharon Pickup at (202) 512-9619 or pickups@gao.gov.

GLOBAL WAR ON TERRORISM

DOD Needs to Take Action to Encourage Fiscal Discipline and Optimize the Use of Tools Intended to Improve GWOT Cost Reporting

What GAO Found

Through June 2007, DOD's reported obligations for fiscal year 2007 of \$95.4 billion were almost equal to its total reported GWOT obligations for fiscal year 2006. After GWOT obligations are reported for the remaining 3 months of fiscal year 2007, which are now averaging \$10.6 billion a month, total obligations will significantly exceed those for fiscal year 2006. Further, changes to the President's fiscal year 2008 GWOT request for DOD have been submitted to fund operational requirements that were not included in the original request. These include decisions in January 2007 to increase or "surge" troop levels in Iraq, and in September 2007 to begin to withdraw these troops during fiscal year 2008. These amendments, totaling nearly \$47.6 billion, bring the total fiscal year 2008 GWOT funding request for DOD to about \$189.3 billion.

Changes in DOD's GWOT funding guidance have resulted in billions of dollars being added to GWOT funding requests for what DOD calls the "longer war against terror," making it difficult to distinguish between incremental costs to support specific contingency operations and base costs. Although emergency funding has historically been used to support unexpected costs of contingency operations, in October 2006, DOD revised guidance to allow for additional costs. As a result, the fiscal year 2007 and 2008 requests included funding for items generally requested in DOD's base budget, such as future weapon systems, transformation, and increases to military end strength. GAO believes similarities, in some cases, between DOD's GWOT and base funding requests, along with the duration of GWOT operations, indicate DOD has reached the point where it should build more funding into its base budget. Without clearly defining the "longer war against terror" and increasing the transparency between incremental and base costs, decision makers cannot assess priorities and potential trade-offs. If the administration believes the nation is engaged in a long-term conflict, the implications should be considered during annual budget deliberations. Continuing to fund GWOT through emergency requests reduces transparency and avoids the necessary reexamination of commitments, investment priorities, and trade-offs.

DOD has achieved some positive results and GWOT cost reporting continues to evolve. More action is needed to optimize the tools intended to improve GWOT cost reporting. DOD has begun to improve transparency by requiring components to analyze variances in reported obligations and to disclose reasons for significant changes. GAO found that required explanations, in some instances, were not disclosed due to inadequate management oversight, and other types of analysis could help identify obligations omitted from reports, such as about \$1.5 billion in Marine Corps obligations. Also, in some cases, components did not provide required affirmation statements to attest to accuracy nor were they required to disclose the basis for statements or note the outcome of variance analyses. Without more complete information and a more robust methodology, DOD does not yet have the data needed to assess reliability or to be confident adequate steps are taken to validate cost data.

Contents

Letter		1
	Results in Brief	5
	Background	9
	DOD's Fiscal Year 2007 Reported GWOT Obligations Will Significantly Exceed Those of Fiscal Year 2006, and Changes to DOD's Fiscal Year 2008 GWOT Funding Request Have Been Submitted	15
	Changes in DOD's GWOT Funding Guidance Has Made It Difficult to Distinguish between Incremental Costs and Base Costs	19
	DOD Has Achieved Some Positive Results; Further Action Is Needed to Optimize Use of Tools Intended to Improve Cost Reporting	22
	Conclusions	32
	Recommendations for Executive Action	33
	Agency Comments and Our Evaluation	35
Appendix I	Scope and Methodology	40
Appendix II	DOD's Fiscal Year 2007 GWOT Appropriations and Obligations	44
Appendix III	Process for Calculating Variance Analyses	49
Appendix IV	Comments from the Department of Defense	51
Appendix V	GAO Contact and Staff Acknowledgments	56
Related GAO Products		57

Tables

Table 1: Fiscal Year 2007 Appropriations Identified for GWOT for the Military Services	44
Table 2: DOD's Formula for Calculating the Burn Rate for the Variance Analysis of Reported GWOT Obligation Amounts	50
Table 3: Thresholds for Determining If an Explanation Is Required for a Variance	50

Figures

Figure 1: DOD's Cumulative Reported GWOT Obligations for Fiscal Years 2001 through 2006	11
Figure 2: DOD's Reported GWOT Obligations for Fiscal Years 2001 through 2006 by Operation	12
Figure 3: DOD's Reported GWOT Obligations for Fiscal Year 2007, by DOD Component and Appropriation Account, as of June 2007	16
Figure 4: Number of Missing Variance Explanations and Related Dollar Amount of Obligations by DOD Component	25
Figure 5: Military Services' Fiscal Year 2007 Reported GWOT Military Personnel Obligations of Appropriations Identified for GWOT through June 2007	46
Figure 6: Military Services' Fiscal Year 2007 Reported GWOT Operation and Maintenance Obligations of Appropriations Identified for GWOT through June 2007	47
Figure 7: Military Services' Fiscal Year 2007 Reported GWOT Procurement Obligations of Appropriations Identified for GWOT through June 2007	48

Abbreviations

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

This is a work of the U.S. government and is not subject to copyright protection in the United States. It may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.



United States Government Accountability Office
Washington, DC 20548

November 6, 2007

Congressional Committees

Since the September 11, 2001 terrorist attacks, Congress has provided about \$542.9 billion, as of May 2007, to the Department of Defense (DOD) in annual and supplemental appropriations for domestic and overseas military operations in support of the Global War on Terrorism (GWOT).¹ This amount includes about \$161.8 billion in annual and supplemental emergency appropriations for fiscal year 2007.² In the President's fiscal year 2008 budget proposal submitted in February 2007, DOD requested about \$481.4 billion for its base budget needs and about \$141.7 billion to fund "urgent needs" associated with ongoing operations in Iraq and Afghanistan and other costs of GWOT.³ Subsequently, on July 31, 2007, the President amended DOD's fiscal year 2008 GWOT funding request, increasing the request by \$5.3 billion to maximize the production and fielding of new armored vehicles for service members in Iraq and Afghanistan. On October 22, 2007, the President submitted an additional amendment to DOD's fiscal year 2008 GWOT request for about \$42.3 billion to cover requirements related to operational changes, particularly in Iraq, that were not included in the initial request. DOD's total fiscal year 2008 GWOT budget request now stands at \$189.3 billion. As of June 2007, DOD reported total obligations of about \$447.8 billion for GWOT,

¹After the terrorist attacks of September 11, 2001, the President announced a global war on terrorism requiring the collective instruments of the entire federal government to counter the threat of terrorism. Ongoing military and diplomatic operations overseas, especially in Iraq and Afghanistan, constitute a key part of GWOT. These operations involve a wide variety of activities, such as combating insurgents, civil affairs, capacity building, infrastructure reconstruction, and training military forces of other nations.

²Of the \$161.8 billion, Congress provided \$67.4 billion in Title IX of the Department of Defense Appropriations Act, 2007 in September 2006 as "bridge" funding to support the expenses of ongoing operations early in the fiscal year. Congress provided the remaining \$94.4 billion in the U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Act, 2007 in May 2007.

³DOD's original fiscal year 2008 appropriations request was \$623.1 billion including \$481.4 billion for its base budget and \$141.7 billion for its GWOT budget needs.

including about \$340.3 billion for Operation Iraqi Freedom in Iraq and \$79.9 billion for Operation Enduring Freedom in Afghanistan.⁴

Past administrations generally used emergency funding requests to fund the initial or unexpected costs of most contingency operations.⁵ DOD's previous guidance in building requests directed components to request funding for the incremental costs above base budget funding needed to support specific forces and capabilities required to execute these contingency operations during the fiscal year. Incremental costs are defined as additional costs to DOD components that would not have been incurred if a contingency operation, like Operation Enduring Freedom or Operation Iraqi Freedom, had not been supported. However, this guidance was revised for fiscal year 2007. Beginning with its fiscal year 2007 supplemental funding request for GWOT, DOD directed its components to include in their GWOT requests funding for what it characterized as the "longer war against terror" as well as for the specific contingency operations in Iraq and Afghanistan. According to DOD officials, the components were also expected to apply this guidance in developing fiscal year 2008 requests.

DOD reports its GWOT-related costs in terms of obligations, which it incurs through actions such as orders placed, contracts awarded, services received, or similar transactions. Obligations incurred during a given period may require payments during the same or a future period. DOD compiles and reports obligations incurred to support GWOT in a monthly *Supplemental and Cost of War Execution Report* (cost-of-war report). DOD leadership uses this report, along with other information, to evaluate the costs of the war and to formulate future GWOT funding requests. The report identifies monthly and cumulative incremental GWOT obligations for the current fiscal year. DOD reports these obligations by appropriation, contingency operation, and military service or defense agency. The

⁴The difference between DOD's GWOT appropriations and reported obligations can generally be attributed to certain fiscal year 2007 appropriations and multiyear funding for procurement; military construction; and research, development, test, and evaluation from previous GWOT appropriations that have yet to be obligated, and obligations for classified activities which are not included in DOD's reported obligations.

⁵Volume 12, Chapter 23 of the DOD *Financial Management Regulation* 7000.14R generally establishes financial policy and procedures related to DOD contingency operations. It defines contingency operations to include small, medium, and large-scale campaign-level military operations, including support for peacekeeping operations, major humanitarian assistance efforts, noncombatant evacuation operations, and international disaster relief efforts.

monthly cost reports are typically compiled in the 45 days after the end of the reporting month in which the obligations are incurred. DOD has prepared monthly reports on the obligations incurred for its involvement in GWOT since fiscal year 2001.

Over the years, we have conducted a series of reviews under the Comptroller General's authority examining the funding and reported obligations for military operations in support of GWOT. Based on this work, we have made a series of recommendations to the Secretary of Defense intended to improve the transparency and reliability of DOD's cost information on GWOT obligations and to adjust GWOT funding requests, and DOD has implemented many of these. For example, in September 2005 and in November 2006, we reported that continued problems with transparency over DOD's costs and inaccuracies in reported obligations make it difficult for DOD and Congress to reliably know how much the war is costing, examine details on how appropriated funding is being spent, or have historical data useful in considering future funding needs.⁶ In response, DOD has taken a number of steps, including modifying its guidance to more clearly define some of its cost categories and issuing guidance to the secretaries of the military services and the directors of the defense agencies intended to help DOD components more accurately and consistently report obligations for contingency operations conducted in support of GWOT. This guidance directed DOD components to perform a monthly variance analysis, which is a tool to determine the factors that cause differences, if any, between reported obligations for certain cost categories and the average amount of obligations for the same categories during the fiscal year. DOD components submit their explanations for these differences to the Defense Finance and Accounting Service (DFAS) along with their reported obligation information for inclusion in the monthly *Supplemental and Cost of War Execution Report*. To further establish accountability, the DOD Comptroller required each DOD component to attest to the accuracy of the monthly *Supplemental and Cost of War Execution Report* submissions and affirm that this information provides a fair representation of ongoing activities related to those operations. Furthermore, in July 2006, we testified that the President should consider funding additional GWOT costs through DOD's base

⁶GAO, *Global War on Terrorism: DOD Needs to Improve the Reliability of Cost Data and Provide Additional Guidance to Control Costs*, [GAO-05-882](#) (Washington, D.C.: Sept. 21, 2005) and GAO, *Global War on Terrorism: Fiscal Year 2006 Obligation Rates Are Within Funding Levels and Significant Multiyear Procurement Funds Will Likely Remain Available for Use in Fiscal Year 2007*, [GAO-07-76](#) (Washington, D.C.: Nov. 13, 2006).

budget, as has been done with Operation Noble Eagle, instead of through emergency supplemental funding requests.⁷

We prepared this report under the Comptroller General's authority to conduct evaluations on his own initiative. To assist Congress in its oversight role and to help it consider future GWOT funding needs, we assessed (1) DOD's fiscal year 2007 reported obligations for GWOT by operation, military service, and appropriation account based on data through June 2007 to determine the outlook of obligations in fiscal year 2007 and funding requests for fiscal year 2008, (2) changes in DOD's GWOT funding guidance to determine the effect on the department's base budget and GWOT funding requests, and (3) DOD's progress in implementing variance analysis and affirmation statements as tools to improve GWOT cost reporting.

To assess DOD's reported obligations for GWOT in fiscal year 2007, the outlook of obligations for the remainder of the fiscal year, and its funding requirements for GWOT in fiscal year 2008, we analyzed DOD's October 2006 through June 2007 *Supplemental and Cost of War Execution Reports* and reviewed applicable supplemental and annual appropriations and DOD reports on the transfer of funds between various appropriation accounts. We then reviewed the same documents for past fiscal years to determine if fiscal year 2007 obligations were greater than, equal to, or less than the previous fiscal years. We also interviewed key officials from the Office of the Under Secretary of Defense (Comptroller)⁸ and the Army, Navy, Marine Corps, and Air Force to obtain their projections of GWOT obligations through the end of the fiscal year and potential requirements for fiscal year 2008. As previously reported, we found the data in DOD's monthly *Supplemental and Cost of War Execution Report* to be of questionable reliability. Consequently, we are unable to ensure that DOD's reported obligations for GWOT are complete, reliable, and accurate, and they should therefore be considered approximations. To examine the impact of changes in DOD's GWOT funding guidance on DOD's base budget and GWOT funding requests, we reviewed guidance issued by DOD regarding the submission of requirements for GWOT funding. We analyzed DOD's base budget and GWOT funding requests, to determine what

⁷GAO, *Global War on Terrorism: Observations on Funding, Costs, and Future Commitments*, [GAO-06-885T](#) (Washington, D.C.: July 18, 2006).

⁸For purposes of this report, we refer to the Office of the Under Secretary of Defense (Comptroller) as the DOD Comptroller.

changes had occurred in these submissions as a result of the guidance. We also interviewed key officials from the DOD Comptroller, Army, Navy, Marine Corps, and Air Force to determine how they interpreted and implemented this guidance. To examine DOD's progress in implementing variance analysis and affirmation statements as tools to improve GWOT cost reporting, we reviewed guidance issued by DOD for the analysis and reporting of GWOT obligations and the information reported in DOD's cost-of-war reports. We also interviewed key officials from the DOD Comptroller, DFAS, Army, Navy, Marine Corps, and Air Force about their reporting and analysis processes. For the 5-month period from November 2006 through March 2007, we determined whether required variance explanations were included in the cost-of-war reports in accordance with DOD's guidance. Finally, for the same 5-month period, we reviewed affirmations associated with DOD cost-of-war reports to determine whether all required affirmations were submitted before the reports were issued. Further details about our scope and methodology can be found in appendix I.

We performed our work from November 2006 through August 2007 in accordance with generally accepted government auditing standards.

Results in Brief

Our analysis of DOD's fiscal year 2007 reported obligations through June 2007 shows that, at that time, DOD's reported GWOT obligations were almost equal to all GWOT obligations for fiscal year 2006. After GWOT obligations are reported for the remaining 3 months of fiscal year 2007, total obligations will significantly exceed those for fiscal year 2006. Further, changes to the President's fiscal year 2008 GWOT request for DOD have been submitted to the Congress to fund operational requirements that were not funded in the original request. As of June 2007, which represents 9 months (75 percent) of fiscal year 2007, DOD's reported obligations of about \$95.4 billion were already roughly equal to reported obligations of about \$98.4 billion for all of fiscal year 2006. In the three months of fiscal year 2007 remaining to be reported, DOD will continue to incur and report obligations, which are averaging about \$10.6 billion a month. This increase in fiscal year 2007 reported obligations is due in part to the cost of deploying an additional 30,000 troops to support operations in Iraq as part of the surge strategy and the deployment of additional personnel to Afghanistan to provide increased security against an anticipated insurgent offensive. Since these additional forces were not fully in place until the end of June, it is likely that the full financial effect of these and other ongoing operations in theater will not be seen until obligations have been reported for the last 3 months of fiscal year 2007,

beginning with the July cost-of-war report. Also adding to the increased fiscal year 2007 obligations is DOD's need to repair or replace billions of dollars worth of equipment after nearly 6 years of ongoing operations. Consequently, obligations for procurement, which include aircraft, munitions, vehicles, communications and electronics equipment account for nearly a quarter of reported obligations in fiscal year 2007 through June 2007—about \$21.5 billion. This amount is approximately one and a half times reported obligations for procurement during all of fiscal year 2006. Since 60 percent, or about \$24.7 billion, of the military services procurement funding was provided in the fiscal year 2007 GWOT supplemental appropriation, which was not signed into law until May 2007, it is likely that DOD's reported obligations for procurement will continue to increase as these additional funds are obligated. Because these procurement funds are available for obligation over multiple years, some fiscal year 2007 procurement funding will likely be obligated in fiscal year 2008 and beyond. In October 2007, the President submitted an amendment to the fiscal year 2008 GWOT request for DOD to cover funding needs related to operational changes, particularly in Iraq, such as the administration's decisions in January 2007 to increase or "surge" troop levels in Iraq, and in September 2007 to begin to withdraw these troops during fiscal year 2008. This amendment totals about \$42.3 billion, which will help fund, among other things, an additional five combat brigades and other forces deployed as part of the President's surge strategy in Iraq, additional Mine Resistant Ambush Protected vehicles, and reconstitution of military equipment. The President's revised fiscal year 2008 GWOT funding request for DOD will total about \$189.3 billion.

Changes in DOD's GWOT funding guidance have resulted in billions of dollars being added to GWOT funding requests for what DOD calls the "longer war against terror," making it difficult to distinguish between incremental costs to support specific contingency operations and longer term costs typically associated with DOD's baseline budget. In the past, emergency funding requests have generally been used to support the initial or unexpected costs of contingency operations. Once a limited and partial projection of costs could be made, past administrations have generally requested further funding in DOD's base budget requests. We have previously encouraged the administration to include known or likely projected costs of ongoing operations related to GWOT within DOD's base budget requests. However, current administration policy dictates that the costs of ongoing military operations in support of GWOT, such as Operation Enduring Freedom and Operation Iraqi Freedom, should be requested as emergency funding. In October 2006, the Deputy Secretary of Defense issued a memo expanding the ground rules for DOD's GWOT

requests by allowing the inclusion of funding needs related to what DOD called the “longer war against terror,” rather than limiting the request to contingency operations such as Operation Enduring Freedom or Operation Iraqi Freedom, without clearly defining the “longer war.” As a result of DOD’s new GWOT funding guidance, the line between what has historically been requested as emergency funding and what has historically been requested as part of DOD’s base budget has been blurred. For example, DOD’s fiscal year 2008 GWOT request includes funding for a Joint Strike Fighter that will not be operationally capable for several years, five CV-22 Vertical Lift Aircraft that will not be available until 2009, and about \$1.6 billion to accelerate transformation and increases to end strength of the Army and Marine Corps. DOD’s position is that it is appropriate to request emergency funding for longer term items because of the ongoing nature of GWOT and the need to repair and replace equipment that is being depleted at a greater than normal or peacetime rate. However, we believe it is precisely because the administration defines GWOT as long term that the costs implicit in any strategy should be transparent and subject to discussion and debate. Furthermore, we believe, in some cases, the similarities between DOD’s GWOT and base funding requests, coupled with the duration of GWOT operations, indicate that DOD has reached the point where it needs to build more funding into its base budget. Without a clear definition of the “longer war against terror” and clearer distinctions between what constitutes incremental versus base costs, decision makers lack an integrated picture and the ability to set priorities and make trade-offs between the costs of ongoing operations and DOD’s long-term funding needs. If the administration believes that the nature of the security challenges facing the United States has changed such that we are engaged in a long-term conflict, the implications—for example, in terms of force structure, investment priorities, and long-term versus short-term costs—should be the focus of discussion with Congress. Continuing to fund the GWOT through emergency funding requests reduces transparency and avoids the necessary reexamination and discussion of defense commitments and the trade-offs among funding needs that may be required.

DOD has achieved some positive results and GWOT cost reporting continues to evolve. At the same time, more action is needed to optimize the use of tools intended to improve GWOT cost reporting. For example, for the 5-month period we reviewed, DOD made some progress in improving the transparency of monthly cost-of-war information by requiring components to analyze variances in reported obligations and to disclose underlying reasons for significant changes. In addition, according to DOD officials, studying the causes of significant obligation variances

has helped DOD components identify and correct inaccurately reported obligations. However, we identified instances where required explanations for significant variances in obligations were not disclosed due to inadequate management oversight. Further, other techniques beyond variance analysis may be needed to identify GWOT obligations that were omitted from the cost-of-war reports. For example, by comparing available funding with obligations data we identified approximately \$1.5 billion in obligations that were omitted from the October 2006 through February 2007 cost-of-war reports for the Marine Corps. In addition, in some cases, components did not provide required affirmation statements to attest to the accuracy of their reports. We also determined that affirmation requirements do not require components to disclose the basis for affirmation statements or note the overall outcome of variance analyses. Without more complete information and a more robust methodology, including standardized quality assurance processes, DOD does not yet have sufficient information to assess the reliability of cost data submitted by the components nor can it be confident that adequate steps have been taken to validate the cost data.

To improve transparency related to funding the war on terrorism, and permit reexamination and analysis of our defense commitments, we recommend that the Secretary of Defense direct the Under Secretary of Defense (Comptroller) to (1) issue guidance defining what constitutes the “longer war against terror,” identify what costs are related to that longer war, and build these costs into the base defense budget; (2) identify incremental costs of the ongoing GWOT operations that can be moved into the base budget; and (3) in consultation with the Office of Management and Budget, consider limiting emergency funding requests to truly unforeseen or sudden events. Also, to further improve the reliability of DOD’s reported obligation information, we recommend that the Secretary of Defense direct the Under Secretary of Defense (Comptroller) to develop and implement additional guidance with regard to the implementation of the variance analysis and affirmation statements included in DOD’s monthly cost-of-war reports.

In written comments on a draft of this report, DOD generally agreed with 10 of our recommendations and did not agree or disagree with an 11th recommendation.

DOD did not agree or disagree with our recommendation that the use of emergency funding requests be limited to truly unforeseen or sudden events. Instead, DOD noted that the Office of Management and Budget, not the Secretary of Defense, makes the determination concerning the use of

emergency funding requests. Therefore, to recognize the role of the Office of Management and Budget, we have changed the recommendation to read: “We recommend that the Secretary of Defense, in consultation with the Office of Management and Budget, consider limiting emergency funding requests to truly unforeseen or sudden events.”

DOD’s comments and our evaluation of them are discussed in detail in a later section of this report and the department’s comments are reprinted in appendix IV.

Background

Since the terrorist attacks of September 11, 2001, the United States has undertaken military operations worldwide to fight terrorism as part of GWOT. Military operations to combat terrorism began with Operation Noble Eagle, aimed at defending the U.S. homeland against terrorist attacks, and Operation Enduring Freedom, which takes place principally in and around Afghanistan, but also covers additional operations in the Horn of Africa, the Philippines, and elsewhere. In 2003, the United States began Operation Iraqi Freedom, which takes place principally in Iraq. These operations involve a wide variety of activities such as combating insurgents, training the military forces of other nations, and conducting small-scale reconstruction and humanitarian relief projects. DOD is responsible for carrying out these activities.

Since September 2001, funding for military operations in support of GWOT has generally been provided through annual appropriations or supplemental appropriations as emergency funding⁹ essentially outside of the annual budget process. A majority of this funding has come as supplemental appropriations, which are requested by the department and approved by Congress separately from DOD’s annual appropriation. The portion of annual appropriations for GWOT, also known as “Title IX” or “bridge funding” was provided by Congress to pay for ongoing military operations during the first part of the fiscal year in 2005,¹⁰ 2006, and 2007. For fiscal year 2007, Congress provided DOD with about \$67.4 billion in “Title IX” of the Department of Defense Appropriation Act, 2007 as “bridge” funding to support ongoing operations early in the fiscal year. In

⁹Caps on discretionary spending set by Congress in the regular budget process are raised by the amount designated as “emergency.”

¹⁰The fiscal year 2005 funds were available for obligation during the last two months of fiscal year 2004.

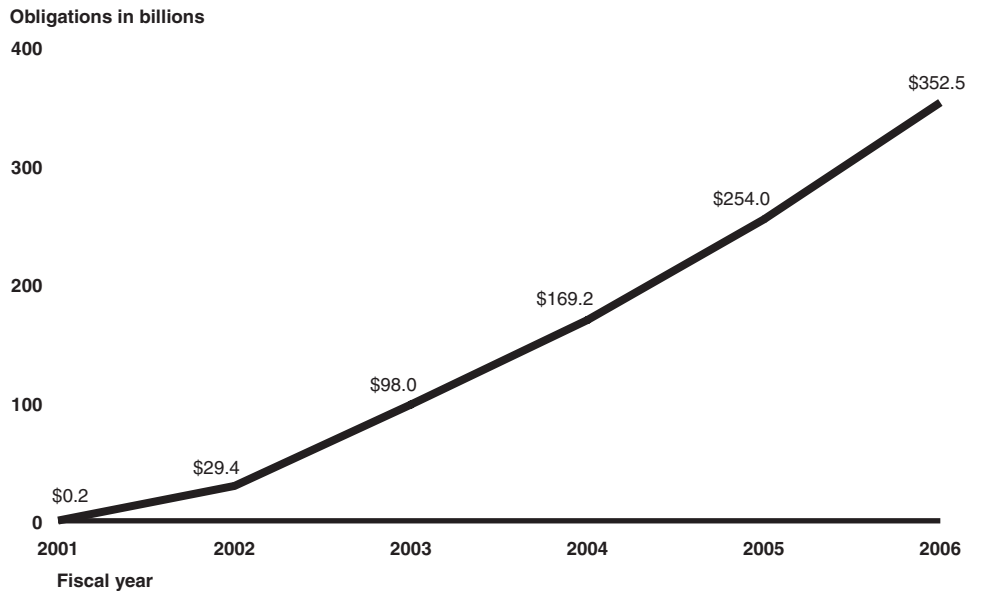
February 2007, the President submitted a request for supplemental appropriations and Congress provided DOD with an additional about \$94.4 billion in the U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Act, 2007.

In his fiscal year 2008 budget, the President included a request for GWOT funding in the budget submission for the first time since September 2001. This action was consistent with a requirement in section 1008 of the John Warner National Defense Authorization Act for Fiscal Year 2007¹¹ which required the President's future budget submissions after fiscal year 2007 to include a request for the appropriation of funds for ongoing military operations in Afghanistan and Iraq for that fiscal year, an estimate of all funds expected to be required in that fiscal year for such operations, and a detailed justification of the funds requested. This fiscal year 2008 GWOT funding request, totaling \$141.7 billion, was submitted along with DOD's annual budget request, but was requested as emergency funding. The GWOT funding request contained the caveat that it was based upon the department's best estimate of war funding needs as of February 2007 and, if circumstances warranted, the department would seek to amend the request as appropriate.

DOD's total reported obligations related to GWOT have increased steadily each fiscal year through 2006 for a cumulative total of \$352.5 billion, as shown in figure 1. As discussed later, the trend in growing costs is expected to continue through fiscal year 2007. As of June 2007, DOD reported obligations of about \$95.4 billion for fiscal year 2007.

¹¹Pub. L. No. 109-364 (2006).

Figure 1: DOD's Cumulative Reported GWOT Obligations for Fiscal Years 2001 through 2006

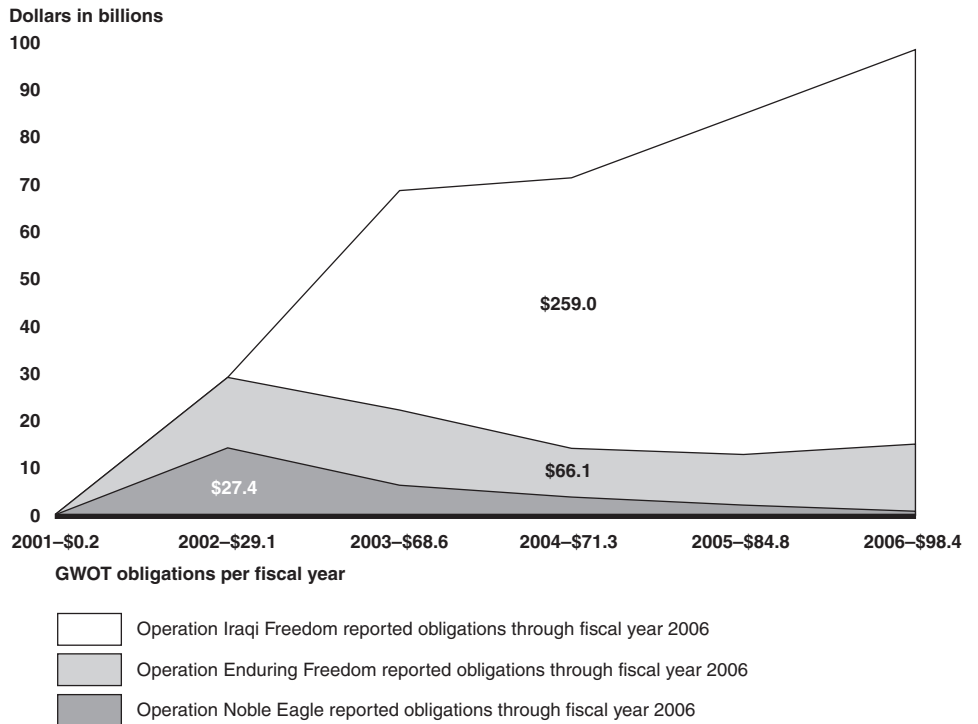


Source: GAO analysis of DOD data.

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

As shown in figure 2, DOD's reported obligations for GWOT at the end of each fiscal year have increased from about \$0.2 billion in fiscal year 2001 to about \$98.4 billion in fiscal year 2006. A majority of this increase is due to reported obligations for Operation Iraqi Freedom, which have consistently increased in both dollar amount and as a proportion of total reported GWOT obligations. In contrast, DOD's reported obligations for Operation Noble Eagle have consistently decreased since fiscal year 2003, while those for Operation Enduring Freedom have remained within a range of \$10.3 billion to \$15.9 billion each fiscal year since 2002.

Figure 2: DOD's Reported GWOT Obligations for Fiscal Years 2001 through 2006 by Operation



Source: GAO analysis of DOD data.

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

In previous reports,¹² we identified numerous problems in DOD's processes for recording and reporting obligations, raising significant concerns about the overall reliability of DOD's reported obligations. On its own initiative and in response to our recommendations, DOD has placed greater management focus on weaknesses in GWOT cost reporting and taken a number of steps intended to improve the reliability and accuracy of reported obligations. Factors affecting the reliability of DOD's reported costs include long-standing deficiencies in hundreds of nonintegrated

¹²See the Related GAO Products list at the end of this report.

financial management systems requiring manual entry of some data in multiple systems, and the lack of a systematic process to ensure that data are correctly entered into those systems. DOD's efforts to improve weaknesses include establishing additional procedures for analyzing and validating GWOT cost data, and establishing a new steering group.

Specifically, in August 2005, the DOD Comptroller issued guidance to the secretaries of the military services and the directors of the defense agencies to help DOD components more accurately and consistently report obligations for contingencies such as GWOT.¹³ This guidance directed DOD components to perform a monthly variance analysis to identify changes in obligation amounts from prior months for selected obligation cost categories.¹⁴ This guidance also required written explanations, in the form of footnotes to the cost-of-war report, for each month that reported obligations exceeded previously reported obligations by certain percentages and if any obligations were reported as negative amounts.

In June 2006, DOD issued revised guidance¹⁵ that required DOD components to compute variance percentages for all obligation cost categories, except for investments and the Iraqi and Afghanistan security forces funds,¹⁶ based on the average amount of fiscal year obligations, called the burn rate, instead of only the obligations in the prior month as previously required. According to DOD officials, the revised guidance was issued in an effort to improve the usefulness of the variance analysis and reduce workload based on feedback from the DOD components. The revised guidance also requires footnotes to explain various adjustments to reported obligations. Further, all negative dollar amounts of reported obligations continue to require an explanation. A more detailed explanation of the variance analysis calculation can be found in appendix III.

¹³DOD Comptroller Memorandum *Analysis of Contingency Operation Costs* (Aug. 30, 2005).

¹⁴The cost categories include Military Personnel, Civilian Personnel, Personnel Support, Operating Support, Transportation, and Working Capital Fund Support.

¹⁵DOD Comptroller Memorandum *Revised Instructions for Analysis of Contingency Operation Costs* (June 13, 2006).

¹⁶Analyses of obligations for investments and the Iraqi and Afghanistan security forces funds require a comparison to the corresponding month on the annual spending plan for these respective cost categories.

In addition, in March 2006, the DOD Comptroller issued guidance that required that each DOD component attest to the accuracy of its respective monthly obligation information (used to compile the department's monthly cost-of-war report) and affirm that its reported obligations provide a fair representation of ongoing activities related to contingency operations. The DOD Comptroller emphasized to DOD components that accurate financial data is essential to the effective management of funds entrusted to DOD and that it is the responsibility of all engaged in the contingency operations reporting process to ensure that costs reported are accurate.

Furthermore, DOD established a Senior Steering Group including representatives from DOD, the DFAS, and the military services in February 2007 in an effort to standardize and improve the GWOT cost-reporting process and to increase management attention to the process.¹⁷ DOD also established a GWOT Cost-of-War Project Management Office to monitor work performed by auditing agencies and to report possible solutions and improvements to the Senior Steering Group. Also, a contractor was hired to analyze and document the current cost-of-war reporting process used by the DOD components. This "as-is process" will be used as a baseline to identify additional areas for improvement in a future "to-be process". At the time of our report, this effort was not yet complete, but the "to-be process" is expected to be in place and operational during fiscal year 2008.

¹⁷Deputy Secretary of Defense Memorandum *Improvement of Global War on Terror (GWOT) Cost of War Reporting* (Feb. 26, 2007).

DOD's Fiscal Year 2007 Reported GWOT Obligations Will Significantly Exceed Those of Fiscal Year 2006, and Changes to DOD's Fiscal Year 2008 GWOT Funding Request Have Been Submitted

Our analysis of DOD's fiscal year 2007 reported obligations through June 2007 shows that, at that time, DOD's reported GWOT obligations of about \$95.4 billion were almost equal to reported GWOT obligations of about \$98.4 billion for all of fiscal year 2006. After GWOT obligations are reported for the remaining 3 months of fiscal year 2007, total obligations will significantly exceed those for fiscal year 2006. The higher reported obligations in fiscal year 2007 are largely due to costs associated with the surge strategy in support of Operation Iraqi Freedom and the need to repair and replace equipment after about 6 years of ongoing operations. Also, changes to the President's fiscal year 2008 GWOT request for DOD have been submitted to Congress to fund operational requirements, such as the surge strategy in Iraq, that were not funded in the original request.

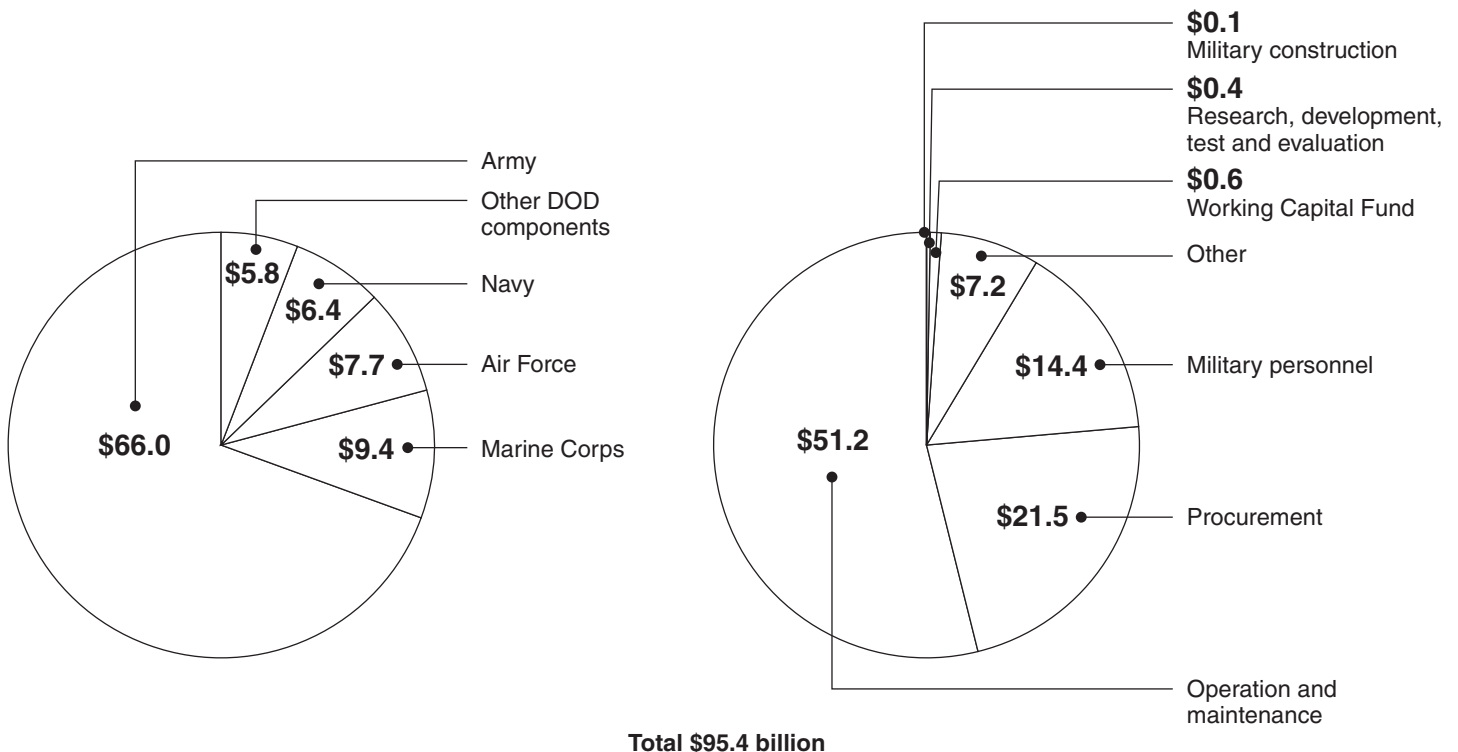
DOD's Fiscal Year 2007 Reported Obligations through June 2007 Are Roughly Equal to Reported Obligations for All of Fiscal Year 2006 and Will Significantly Exceed Fiscal Year 2006's by the End of Fiscal Year 2007

DOD's fiscal year 2007 reported obligations through June 2007 of about \$95.4 billion were roughly equal to reported obligations of about \$98.4 billion for all of fiscal year 2006. When the remaining 3 months of fiscal year 2007 are reported, total obligations, which are being incurred at an average rate of about \$10.6 billion a month, will significantly exceed those of fiscal year 2006. As of June 2007, which represents 9 months (75 percent) of fiscal year 2007, DOD has reported obligations of about 97 percent of the total amount of obligations it reported for all of fiscal year 2006. Reported obligations associated with Operation Iraqi Freedom continue to be far higher than those for other GWOT operations in fiscal year 2007. Of the total in obligations reported by DOD for GWOT through June 2007, nearly \$81.3 billion, or about 85 percent, has been reported for Operation Iraqi Freedom. In contrast, DOD has reported obligations of approximately \$13.8 billion, or about 14 percent, for Operation Enduring Freedom and about \$0.33 billion, or less than 1 percent, for Operation Noble Eagle. The Army accounts for the largest proportion of reported obligations—about \$66.0 billion seven times higher than the almost \$9.4 billion in obligations reported for the Marine Corps, the service with the next greatest reported amount. Among appropriation accounts, operation and maintenance, which include items such as housing, food, and services; the repair of equipment; and transportation to move people, supplies, and equipment, accounts for the largest reported obligations—about \$51.2 billion. Figure 3 shows DOD's reported obligations through June of fiscal year 2007, by military service and appropriation account.

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

By DOD component (dollars in billions)

By appropriation account (dollars in billions)



Source: GAO analysis of DOD data.

Note: GAO has assessed the reliability of DOD's obligation data and found significant problems, such that these data may not accurately reflect the true dollar value of GWOT obligations. Obligation figures may not add to \$95.4 billion because of rounding.

Further information regarding funding and obligations by military services and appropriations accounts can be found in appendix II.

DOD's reported obligations in fiscal year 2007 through June 2007 are higher than fiscal year 2006's largely due to costs associated with the surge strategy in support of Operation Iraqi Freedom. In late January of 2007, the President announced a "surge" strategy in Iraq, providing for the deployment of an additional 30,000 troops to support stability operations. He also announced the deployment of additional personnel to Afghanistan to provide increased security against an anticipated insurgent offensive. This brings the total number of troops in Iraq and Afghanistan to about 193,000. Since these additional forces were not fully in place until the end

of June, it is likely that the full financial effect of the surge and other ongoing operations in-theater will not be seen until the last quarter of fiscal year 2007, beginning with the July cost-of-war report.

Also adding to the increased fiscal year 2007 obligations is DOD's need to repair or replace billions of dollars worth of equipment after nearly 6 years of ongoing operations. Continuing military operations in Iraq and Afghanistan are taking a toll on the condition and readiness of military equipment. Harsh combat and environmental conditions in theater over sustained periods of time exacerbates equipment repair, replacement, and modernization problems that existed before the onset of combat operations in Iraq and Afghanistan. Consequently, obligations for procurement which include aircraft, munitions, vehicles, communications, and electronics equipment account for nearly a quarter of reported obligations—about \$21.5 billion for fiscal year 2007 through June 2007. This amount is approximately one and a half times higher than reported obligations for procurement during all of fiscal year 2006.

In previous work,¹⁸ we reported that a significant amount of multiyear procurement funding provided in the fiscal year 2006 supplemental appropriation would remain available for use in fiscal year 2007. Most of these fiscal year 2006 multiyear funds have since been obligated. Since 60 percent, or about \$24.7 billion, of the military services procurement funding was provided in the fiscal year 2007 GWOT supplemental appropriation, which was not signed into law until late May 2007, it is likely DOD's reported obligations for procurement will increase as these additional funds are obligated. Since these procurement funds are available for obligation over multiple years, some procurement funding will likely be obligated in fiscal year 2008 and beyond.

In other work,¹⁹ we have found that, although the Army and Marine Corps track and report equipment reset²⁰ expenditures in the operation and maintenance accounts in detail, they do not report detailed equipment reset expenditures within the procurement accounts in a way that confirms that funds appropriated for reset are expended for that purpose.

¹⁸GAO-07-76.

¹⁹GAO, *Defense Logistics: Army and Marine Corps Cannot Be Assured Equipment Reset Strategies Will Sustain Equipment Availability While Meeting Ongoing Operational Requirements*, GAO-07-814 (Washington D.C.: Sept. 19, 2007).

²⁰Reset is defined as the costs to repair, replace, and recapitalize equipment.

DOD's *Financial Management Regulation* does not require them to specifically report procurement expenditures for reset in detail. Our report also found that the Army and the Marine Corps cannot be assured their reset strategies will sustain equipment availability for deployed units as well as units preparing for deployment in support of GWOT while meeting ongoing operational requirements. Neither the Army nor the Marine Corps' reset strategies target shortages of available equipment and prioritize equipment needs of units preparing for deployment over longer-term modernization goals.

Changes to the Fiscal Year 2008 GWOT Request for DOD Have Been Submitted

In October 2007, the President submitted an amendment to the fiscal year 2008 GWOT request for DOD to cover funding needs related to operational changes, particularly in Iraq, such as the administration's decisions in January 2007 to increase or "surge" troop levels in Iraq, and in September 2007 to begin to withdraw these troops during fiscal year 2008. The original fiscal year 2008 GWOT request, totaling \$141.7 billion, was submitted in early February 2007 before the operational changes in theater were implemented, and was prepared based on the same assumptions, such as troop levels and operational requirements, used for the original fiscal year 2007 GWOT supplemental request. As stated earlier, the GWOT funding request contained the caveat that it was based upon the department's best estimate of war funding needs at the time and, if circumstances warranted, the department would seek to amend the request as appropriate. In July 2007, the President submitted an amendment to the fiscal year 2008 GWOT request asking for an additional \$5.3 billion for the rapid procurement of Mine Resistant Ambush Protected vehicles. The subsequent amendment submitted by the President in October 2007, totaling about \$42.3 billion, will help fund among other things, Army and Marine Corps combat formations currently in Iraq through fiscal year 2008, the cost to redeploy five Army combat brigades deployed as part of the President's surge strategy in Iraq, additional Mine Resistant Ambush Protected vehicles, reconstitution of military equipment, and training and equipment to support Army deployment readiness. The President's revised fiscal year 2008 GWOT funding request for DOD totals about \$189.3 billion.

Changes in DOD's GWOT Funding Guidance Has Made It Difficult to Distinguish between Incremental Costs and Base Costs

Changes in DOD's GWOT funding guidance have resulted in billions of dollars being added to GWOT funding requests, for what DOD calls the "longer war against terror," making it difficult to distinguish between incremental costs to support specific contingency operations and longer term costs typically associated with DOD's base budget. Historically, emergency funding requests have generally been used to support the unexpected incremental costs of contingency operations, but usually for a limited time. Previous administrations have then moved these costs into the base budget. Contrary to this historical practice, in October 2006, the Deputy Secretary of Defense issued a memo that expanded the ground rules for DOD's GWOT requests, allowing for the inclusion of costs for what DOD calls the "longer war against terror." This inclusion blurred the lines between incremental costs and longer-term costs that have historically been requested as part of the base budget, as discussed below.

DOD's Emergency Funding Requests Have Historically Been Limited to Funding the Initial Incremental Costs of Contingency Operations, but Recent DOD Guidance Revised the Ground Rules to Allow for Additional Costs

Historically, DOD's emergency funding requests have been limited to funding the initial incremental costs of most contingency operations. This includes the early stages of World War II, as well as operations in Korea, Vietnam, Southwest Asia after the Persian Gulf War, Bosnia, Kosovo, and relief operations related to Hurricane Katrina and the tsunami in Indonesia. More recently, in fiscal year 2005 DOD began requesting funding for Operation Noble Eagle, which had previously been funded through emergency supplemental funding requests, through its base budget request. As soon as a limited and partial projection of costs could be made, past administrations have, in general, requested funding for ongoing military operations in DOD's base budget requests. In previous work,²¹ we encouraged DOD to include known or likely projected costs of ongoing operations in its base budget requests. As early as 1994, we stated our expectation that any emergency supplemental funding requests would only be used to cover the initial costs of a contingency operation in its first fiscal year. Further, if the operation continued into a new fiscal year, and if DOD had time within the budget and legislative cycle, DOD would build the expected costs of the operation into its base budget and allow Congress to expressly authorize and appropriate funds for its continuation. In 2004 and 2006, we repeated our suggestion that once an operation reaches a known level of effort and cost are more predictable,

²¹GAO, *DOD Budget: Analysis of Options for Funding Contingency Operations*, GAO/NSIAD-94-152BR, (Washington, D.C.: Apr. 26, 1994); *Future Years Defense Program: Actions Needed to Improve Transparency of DOD's Projected Resource Needs*, GAO-04-514 (Washington, D.C.: May 7, 2004); and GAO-06-885T.

more funding should be built into the base budget. Contrary to historical precedent and our suggestions, current administration policy dictates that the costs of ongoing military operations in support of GWOT, such as Operation Enduring Freedom and Operation Iraqi Freedom, should be requested as emergency funding, and since September 2001 this has been the practice.

Accordingly, DOD's fiscal year 2006 and 2007 supplemental funding guidance directed DOD components to request funding to address the incremental costs specifically required to execute the mission objectives of Operation Iraqi Freedom and Operation Enduring Freedom. Only "must-fund" costs associated with Operation Iraqi Freedom and Operation Enduring Freedom were to be included. Subsequently, the October 2006 memorandum added that estimates were now to include incremental costs related to what the Deputy Secretary called the "longer war against terror," beyond those directly attributable to Operation Enduring Freedom and Operation Iraqi Freedom. Although the memorandum did not define the longer war, it mentioned related costs, including reconstitution or reset costs for combat losses, accelerated wear and necessary repairs to damaged equipment or replacement to newer models, and costs to accelerate specific force capability. DOD Comptroller officials stated that the intent of the October 2006 memorandum was to provide DOD components with opportunities to request funding for equipment that, although not battle damaged or destroyed, was being depleted at a greater than normal or peacetime rate due to the ongoing nature of GWOT, but was not being replaced.

DOD's Fiscal Year 2007 and 2008 GWOT Requests Included Costs for Long-Term Initiatives

As a result of the changes in DOD's GWOT funding guidance discussed above, the fiscal year 2007 GWOT supplemental and fiscal year 2008 GWOT funding requests included billions of dollars for long-term needs related to the "longer war against terror." In the initial fiscal year 2007 supplemental funding request for DOD, the President included \$300 million to fund counterterrorism efforts outside of Iraq and Afghanistan as part of the regional war on terror, \$1.7 billion to fund construction and other infrastructure improvements and purchase equipment to support efforts to grow the force by increasing the size of the Army and Marine Corps, and funding for procurement of aircraft that would not be operationally fielded for several years. However, funding for some of these items was also included in the fiscal year 2007 base budget request for DOD. After the current surge strategy in Iraq was announced in January of 2007, the President amended the fiscal year 2007 GWOT supplemental request in March of 2007, realigning resources to cover funding for the

deployment of additional personnel and equipment to Iraq and Afghanistan, as well as a new medical care fund for returning GWOT service members and the cost of efforts to combat terrorism in Pakistan. Funding for these resources was offset by reallocating funding from programs for fixed wing aircraft, the regional war on terror, and portions of the funding for infrastructure and equipment to support increased force levels in the Army and Marine Corps. However, DOD officials stated that these items were still requirements and funding for some of these items is still included in the President's fiscal year 2008 GWOT request for DOD.

The fiscal year 2008 GWOT funding request for DOD also included funding for replacement aircraft that will not be available for years. For example, in the fiscal year 2008 GWOT request, DOD requested \$230 million for an F-35 Joint Strike Fighter. The Joint Strike Fighter funding requested was to support the replacement of an F-16 Falcon lost during combat operations. However, the replacement aircraft will not be available to support the current operations in the coming fiscal year, and will likely not be available for several years. The request also included funding for five CV-22 Vertical Lift Aircraft, the Air Force's variant of the Osprey tilt-rotor aircraft. These aircraft are intended to replace MH-53 Pave Low helicopters that are used to support special operations. Initial operational capability for the CV-22 is not scheduled until fiscal year 2009 and will not be immediately available for operational deployments. Although DOD has linked funding for these aircraft to recapitalization, officials stated that the department is only accelerating previously planned procurements and the funding is not intended for additional procurements. Also, funding for these systems remains as known requirements in current and future base budget documents. As a planned procurement and as-yet unfielded aircraft, it is unclear how these aircraft qualify as an urgent requirement and therefore, why they are included in the fiscal year 2008 GWOT request for DOD.

The fiscal year 2008 GWOT funding request for DOD also includes about \$1.6 billion to accelerate transformation and increase the overall end strength of the Army by 6,000 soldiers and Marine Corp by 4,000 marines. The increase is part of a plan to ensure that there are sufficient personnel in these organizations to support deployment plans for GWOT and in the future. The request states the purpose of the funds is to improve the capability and effectiveness of U.S. forces and reduce the operation tempo stress of continued deployments. However, similar funding is being requested in DOD's base budget as known requirements in fiscal year 2008, and DOD's previous fiscal year 2006 supplemental funding request and original fiscal year 2007 guidance on building its supplemental funding

requests stated that funding for transformation activities would be funded through the base budget. It is therefore unclear why funding for these transformation activities in fiscal year 2008 would be considered incremental and included in the GWOT funding request rather than the DOD base budget.

As a result of DOD's new GWOT funding guidance, the line between what has historically been requested as emergency funding and what has historically been requested as part of DOD's baseline budget costs has been blurred. Without a clear definition of the "longer war against terror" and clearer distinctions between what constitutes incremental versus base costs, decision makers lack an integrated picture and the ability to set priorities and make trade-offs between the costs of ongoing operations, such as Operation Iraqi Freedom and Operation Enduring Freedom, and DOD's long-term funding needs. If the administration believes that the nature of the defense challenge facing the United States has changed such that we are engaged in a long-term conflict, the implications—for example, in terms of force structure, investment priorities, and long term versus short-term costs—should be the focus of discussion with the Congress. Continuing to fund the GWOT through emergency funding requests reduces transparency and avoids the necessary reexamination and discussion of defense commitments and the trade-offs among funding needs that may be required.

DOD Has Achieved Some Positive Results; Further Action Is Needed to Optimize Use of Tools Intended to Improve Cost Reporting

We determined that DOD made some progress in improving the transparency of monthly cost-of-war information for selected cost categories during the 5-month period in fiscal year 2007 covered by our review. DOD improved report transparency by adding written explanations to cost-of-war reports that described many of the reported GWOT obligated amounts for selected cost categories that varied significantly compared to the average reported amounts for the same categories. The purpose of these explanations is for DOD components to document their validation of the accuracy of these reported obligations. In addition, according to DOD officials, studying the causes of significant obligation variances also helped DOD components identify and correct inaccurately reported obligations. However, we identified instances where required explanations for significant variances in obligations were not disclosed due to inadequate management oversight. We also noted that application of DOD's prescribed variance methodology did not always identify GWOT obligations that were omitted from cost-of-war reports. Another step DOD has taken included the requirement for DOD components to affirm that monthly reported GWOT obligations provide a

fair representation of ongoing activities. However, we determined that the military services and some components generally did not submit the affirmations required to be included with issued cost-of-war reports during the 5-month period of our review. We also found weaknesses regarding affirmation requirements that do not require components to disclose the basis for affirmation statements or note the overall outcome of variance analyses. Without more complete information and a more robust methodology, including standardized quality assurance processes, DOD does not have sufficient information to assess the reliability of cost data submitted by the components nor can it be confident that adequate steps have been taken to validate the cost data.

Use of Variance Analysis Has Assisted DOD in Reviewing Reported Obligations, but the Methodology Has Some Limitations

DOD has taken steps to help ensure the reliability of the GWOT obligations through guidance that requires DOD components to explain significant variances in reported GWOT obligations and identify the cause of any adjustments. However, we identified problems with implementation of DOD's variance analysis guidance for the 5-month period we reviewed. First, we determined that DOD components did not provide explanations for about 6.1 percent of \$19.6 billion in obligations that required explanation because they exceeded allowable variance percentage changes during the period from November 2006 through March 2007. Second, we found that DOD's implementation of its prescribed variance methodology did not always identify obligations that were omitted from cost-of-war reports.

Oversight of Variance Analysis Did Not Ensure That Explanations Were Always Provided

DOD's *Financial Management Regulation*²² requires each DOD component to review and validate its reported cost-of-war obligations as accurate. As part of this review, DOD components are required to perform a variance analysis. DOD components report cost-of-war obligations and variance analysis results to DFAS which, in turn, is required to provide the DOD Comptroller with a monthly consolidated cost-of-war report. DOD Comptroller officials told us that they rely on DFAS to help ensure that DOD components comply with variance analysis reporting requirements. However, as discussed below, we determined that issued reports did not include all required information and that the results of the variance analysis are not analyzed from a departmentwide perspective to determine whether any patterns or trends exist in the underlying reasons, which

²²Department of Defense, *Financial Management Regulation*, 7000.14-R, vol. 12, ch. 23, p. 28 (September 2005).

might require corrective action. While a DOD official informed us that if the DOD Comptroller's staff had any questions about reported information they could contact DOD components for clarification, the DOD Comptroller and other users of the cost-of-war reports did not always have readily available evidence that DOD components validated the accuracy of some amounts that represented significant changes in reported obligations.

The DOD *Financial Management Regulation*²³ assigned DOD components primary responsibility for computing variance percentages for obligation cost categories that include military and civilian personnel, personnel support, operating support, and transportation. DFAS also computed variance percentages as part of its oversight role. Variance percentages were computed using the formula: current month obligations minus the burn rate, divided by the burn rate, with the burn rate representing the average of cumulative obligations for the fiscal year.²⁴ Obligations exceeding previously reported obligations by certain percentages required explanations in the form of footnotes that accompany cost-of-war reports. A more detailed explanation of the variance analysis calculation can be found in appendix III. DFAS provided DOD components with its variance analysis results to remind the components of the explanations that it expected to receive before the cost-of-war report was issued.

DOD components reported a total of about \$36.5 billion in GWOT obligations against fiscal year 2007 funding, excluding those for investments and Iraqi and Afghanistan security forces, for the 5-month period from November 2006 through March 2007. Of this amount, \$19.6 billion in obligations exceeded DOD's variance criteria and required a total of 367 explanations in the monthly cost-of-war reports. We determined that DOD components provided 263 explanations for approximately \$18.5 billion in reported GWOT obligation amounts. Some of these explanations described operational changes that caused obligations to increase, such as increased troop deployments. Other explanations described adjustments to reported obligation amounts that were needed to correct mistakes in previously reported obligations. DOD components did not provide 104 required explanations for the remaining \$1.2 billion in reported

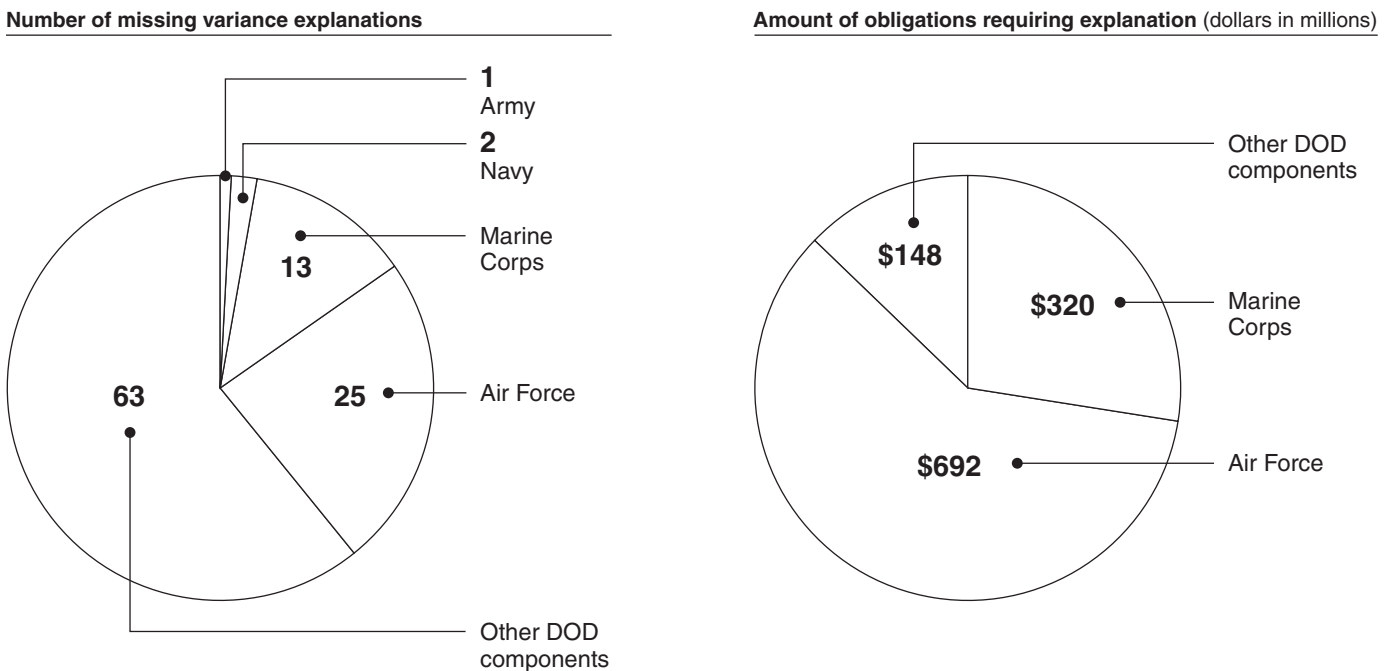
²³Department of Defense, *Financial Management Regulation*, 7000.14-R, vol. 12, ch. 23, p. 28 (September 2005).

²⁴The burn rate for October represents the average of cumulative obligations for the prior fiscal year.

obligations. As a result, there is uncertainty regarding the extent to which DOD components conducted research to validate the accuracy of these reported amounts.

As shown in figure 4, of the 104 variances that required explanations, the cost-of-war reports lacked 25 explanations for Air Force obligations and 13 explanations for Marine Corps obligations. While the Air Force and Marine Corps accounted for only 37 percent of the 104 cases of missing explanations, they represented over 87 percent of the dollar value of the related obligations.

Figure 4: Number of Missing Variance Explanations and Related Dollar Amount of Obligations by DOD Component



Source: GAO analysis of DOD data.

Note: Other DOD components include 21 components such as the Defense Contract Audit Agency, Defense Logistics Agency, and Defense Legal Services Agency. The Navy's 2 missing explanations represented negative obligations of \$588,000 and the Army's missing explanation represented \$1,000.

The lack of explanations makes it difficult for users of the report to understand large changes in obligation amounts, and be confident in the reliability of the cost-of-war reports. For example, we observed that the missing explanations included eight cases of negative obligations. In January 2007, we noted that one component reported negative \$22.2

million in obligations but provided no explanation. An explanation for negative obligations is important in order to inform decision makers whether amounts were de-obligated and are available for other purposes or whether previously reported obligations were incorrect and required adjustment. In addition, we noted 16 cases involving decreases in reported obligations to \$0 dollars in the current month, with no explanation. In one case, the Defense Logistics Agency had reported previous average monthly obligations of \$11.1 million and reported \$0 in obligations in the current month. Without proper explanation, it is uncertain whether the \$0 represent no activity for the period or that there was an error in reporting, such as failure to report actual obligations incurred. Also, these explanations can be a valuable source of information on cost-of-war reporting issues that might need corrective action. For example, they could be used to determine the extent to which significant changes in reported obligations were due to valid operational changes versus the need to correct inaccurate amounts previously reported. However, DOD Comptroller officials told us that they were not aware of any DOD-wide analysis of the cost-of-war report and its supporting variance explanations that would determine problematic patterns, but agreed that such analysis could help reveal root causes of reporting problems that should be considered and corrected during efforts to improve the cost-of-war reporting process.

DFAS officials told us that initially their oversight of the implementation of variance analysis reporting requirements by DOD components was not a priority. Instead, the DFAS staff was focused on ensuring that the process of consolidating the obligation information submitted by DOD components was working properly. For example, in October 2006, DFAS developed and implemented a standard electronic template to consolidate a component's obligations for the monthly cost-of-war report. The template does not provide spaces for entering explanations for significant changes in obligations identified as questionable through variance analysis. Instead, DFAS used an error-prone process for separately compiling the variance explanations that were to be provided as footnotes to the consolidated monthly cost-of-war report. While DFAS initiated steps to track receipt of explanations, it had no documented process for ensuring that all explanations submitted by DOD components were included in the issued cost-of-war reports. For example, Air Force and Marine Corps representatives provided us with eight copies of variance explanations that they told us they had submitted to DFAS but were not included in issued cost-of-war reports. DFAS did not provide them with draft copies of the cost-of-war reports and explanations so that they could

verify that all their explanations were included in the consolidated cost-of-war reports.

DOD Comptroller and DFAS officials stated that they recognized their process for consistently obtaining and including variance explanations by DOD components in the cost-of-war report is an area that needs improvement, and plan to take additional steps to improve the process. For example, according to DOD officials, a GWOT Variance Analysis Workgroup will be established to work with the components to determine the cause for noncompliance in providing required variance explanations.

Other Techniques and Forms of Variance Analysis Could Help DOD Detect Additional Reporting Errors or Omissions

According to DOD officials, performing variance analysis was useful in enabling DOD components to research and validate the accuracy of significant changes in reported obligations and make adjustments as appropriate. However, we determined that some reporting issues could be detected through other types of analyses. For example, application of the prescribed variance methodology did not detect some reporting omissions or work well in electronic software formulas that involve division by zero to compute the variance percentage. Because DOD's variance analysis methodology depends upon the existence of previously reported obligations as the basis for comparative analysis, it was not always useful in instances where there were no obligations reported in the prior month's cost-of-war report. As discussed below, based on our work, DOD is now taking steps to perform other types of analyses intended to improve the identification of unreported obligations.

Our work showed that a comparison of available funding with obligation data in cost-of-war reports is another technique for detecting unreported obligations. Using this comparison, our analysis of DOD's monthly cost-of-war reports for fiscal year 2007 identified about \$1.5 billion in unreported obligations. This underreporting occurred because the Marine Corps had failed to report certain fiscal year 2007 obligations for procurement costs even though it had received multiyear funding for this purpose from previous years' appropriations. Specifically, the cost-of-war reports for October 2006 through February 2007 showed no Marine Corps obligations against previous year funding, although our analysis of appropriations from fiscal years 2005 and 2006 indicated that funding remained available. We brought this to the attention of the DOD Comptroller, DFAS, and the Marine Corps office responsible for submitting monthly obligation information to DFAS. Based on our work, the Marine Corps took steps to review and correct its previous months' obligations and DFAS included the unreported obligations of approximately \$1.5 billion in the March 2007 DOD cost-of-war report.

As a result of the Marine Corps data reliability issue discussed above, DFAS began to use the comparative analysis of GWOT funding and obligations data to pinpoint reporting inconsistencies. From this analysis, DFAS determined that an additional agency, Defense Security Services, had not been reporting GWOT obligations for the first 5 months of fiscal year 2007 totaling about \$1.4 million. DFAS has since added Defense Security Services to the list of reporting components and included its \$1.4 million in unreported obligations in DOD's May 2007 cost-of-war report. DFAS officials told us that during the preparation of future cost reports for the DOD Comptroller they plan to continue to apply this comparative analysis of GWOT funding against obligation data submitted by DOD components in an effort to detect other cost-reporting inconsistencies.

Army and Marine Corps officials told us that they recognized other limitations associated with DOD's required variance analysis methodology. For example, the nature of the obligation process sometimes does not result in a level pattern of obligated amounts each month. Army officials told us that, in addition to using DOD's required variance formula, they also calculated variances using a comparative burn rate based on the prior 12 months of obligations for internal purposes because it provided a more realistic basis for comparison. We agree that variance analysis can be performed using different types of information as the baseline against which to compare the current month's activity. Selecting the most useful information to compare would entail consideration of the nature of the activity being analyzed, including whether the activity tends to be cyclical or more volatile.

In addition, we determined that application of DOD's current variance methodology does not result in identifying spikes in reported obligations from \$0 in the prior month's report to millions in the current month. Of the 104 obligations for which no explanation was included in applicable cost-of-war reports, 25 fit this situation. By following the DOD guidance for calculating the variance, if a component did not report obligations in previous months during the fiscal year, it will be unable to determine a variance percentage for the month in which it does report obligations because dividing the current obligations by zero is mathematically undefined. Thus, other forms of variance analysis may be more practical in situations where no obligations were incurred in the month(s) preceding the month the obligations were incurred. For example, we reviewed the reported monthly GWOT obligations and the associated variance analysis between November 2006 and March 2007 for the 25 cost categories for which no explanation was included in the applicable cost-of-war report and no prior obligations were incurred in fiscal year 2007. We found that

GWOT obligations had been reported in the prior 12 months for 21 of 25 cost categories.²⁵ Consequently, a comparative burn rate could have been calculated, a variance analysis performed and, if needed, a variance explanation provided if 12 months of reported obligations had been used. Further, our work revealed that 3 of the 21 cost categories would not require an explanation because the variance fell within established DOD thresholds.

Affirmation Requirements and Implementation Could Be Improved

DOD's March 2006 guidance requires components to attest to the accuracy of their GWOT reporting and affirm, in writing, that the report provides a fair representation of the ongoing activities. As discussed below, we examined whether components had submitted the required affirmations during the 5-month period from November 2006 through March 2007, and found that, of the 96 affirmations required to be submitted prior to the issuance of the cost-of-war report, 58 had been included with the cost-of-war report and 38 were not. As we noted in our November 2006 report,²⁶ DOD guidance for affirmations did not contain criteria or factors that could be considered during the review process. We did not make any recommendations regarding the affirmation process at that time because the process was new. However, in our current work, we again note that DOD's guidance lacks specific criteria or factors that could be considered during the review of obligation information that was provided to DFAS for inclusion in the cost-of-war report. In addition, we note that DOD guidance does not require that affirmation statements include a description of the basis for the affirming official's decision that the cost-of-war report provides a fair representation of ongoing activities. A description of the basis for the affirmation statement would provide users of the cost-of-war reports with information that could be considered in their assessment of the credibility of the affirmation statement. On the other hand, the absence of such disclosures does little to further DOD's efforts to improve the reliability of the cost-of-war reporting process.

Specifically, DOD affirmation guidance requires an overseeing senior financial official at each DOD reporting component to sign an affirmation statement attesting to the accuracy of submitted obligation information. Components must submit an affirmation to DFAS no later than 25 calendar

²⁵The other 4 missing explanations were due to DOD components reporting GWOT obligations for the first time.

²⁶[GAO-07-76](#).

days following the month in which the obligations were incurred. DFAS tracks the receipt of affirmation statements and includes those received with the issued cost-of-war report. Those DOD components that do not submit an affirmation statement by the cost-of-war reporting deadline are not identified in issued cost-of-war reports.

Although the DOD *Financial Management Regulation*²⁷ states that variance analysis should be included as part of the review to determine whether reported obligations represent a fair representation of ongoing activities, DOD's implementing guidance on affirmation statements does not specifically refer to the relevance of variance analysis in the affirmation process or provide examples of other steps that should be considered before affirmation statements are signed. Further, the affirmation guidance does not require disclosure of the steps performed to support an affirmation.

DOD components reported a total of about \$58 billion in GWOT obligations for the 5-month period from November 2006 through March 2007 which required a total of 96 affirmations from 25 DOD components.²⁸ We determined that 38 of the required affirmations covering \$54.1 billion in obligations were not included with cost-of-war reports issued during this 5-month period. The Air Force, Army, Navy, and Marine Corps accounted for 17 of the missing affirmations covering approximately \$53.3 billion while 11 other DOD components accounted for 21 missing affirmations covering \$840 million in GWOT obligations. The cost-of-war reports for the Army and Marine Corps did not include any affirmations for the 5-month period. The cost-of-war reports for the Air Force included 1 affirmation for January, and the Navy provided affirmations for February and March.

²⁷Department of Defense *Financial Management Regulation*, 7000.14-R, vol.12, ch. 23, p. 28 (September 2005).

²⁸The 25 DOD components include the Air Force, Army, Navy, and Marine Corps and 21 other components including American Forces Information Services, Counterintelligence Field Activity, Defense Contract Audit Agency, Defense Contract Management Agency, Defense Health Program, Defense Intelligence Agency, Defense Information Systems Agency, Defense Logistics Agency, Defense Legal Services Agency, Department of Defense Education Activity, Defense Security Cooperation Agency, Defense Threat Reduction Agency, Department of Defense Inspector General, Joint Chiefs of Staff, National Geospatial-Intelligence Agency, National Security Agency, Office of the Secretary of Defense, Office of the Undersecretary of Defense, Office of the Assistant Secretary of Defense, Special Operations Command, and the Washington Headquarters Services.

The following provides more information on the missing affirmations for each of the services.

- Army officials prepared and submitted 1 of the missing affirmations after the reporting deadline and did not prepare the other 4. According to Army officials, prior to March 2007, affirmation statements were not prepared because of personnel turnover and management changes during our review period.
- Marine Corps officials stated that they did not prepare monthly affirmations because the Marine Corps is organizationally part of the Navy and, therefore, believed the Navy affirmation would cover the Marine Corps cost-of-war report. However, Navy officials stated that they were not responsible for affirming the Marine Corps GWOT obligation information during the period of our review. They further explained that although the Marine Corps provided them with a copy of its cost-of-war obligation information, the Marine Corps also submitted its obligation information directly to DFAS. The Marine Corps used its own accounting system which was different from the Navy's. Navy personnel were not familiar with the Marine Corps accounting system and were therefore not in a position to affirm the information obtained from the Marine Corps. The Navy subsequently informed us that, after our July 2007 meeting, the Marine Corps began providing its GWOT obligation information to the Navy and that the Navy affirmation now also covers the Marine Corps.
- The Navy prepared 4 affirmations, 2 of which were not included in the cost-of-war reports because they missed the reporting deadline. The Navy did not prepare the remaining 1 affirmation for November 2006. Steps taken by the Navy included requiring each major command with GWOT obligations to submit an affirmation statement prior to preparing and submitting the Navy's signed affirmation statement.
- The Air Force prepared 5 affirmations, 4 of which were not included with the issued cost-of-war reports because they missed the reporting deadline. Air Force personnel stated that the cost-of-war obligation information was reviewed by budget office staff responsible for monitoring the military personnel, operation and maintenance, military construction, and investment appropriations. Subsequently, the information was sent through the chain of command and the affirmation statement was signed by the authorizing official. The extended time frame for this review and approval process resulted in the Air Force routinely missing the reporting deadline.

Affirmation statements can be a useful tool for improving the reliability of the reported obligation amounts to the extent that the affirmations are based on a review of the information and identify the sources used. We observed that 12 of the 58 submitted affirmations contained disclosures

about the source of reported obligations. Specifically, three components disclosed that the source of all submitted data was their accounting system.²⁹ However, none of the 58 affirmations described the analysis performed that could inform users of the cost-of-war report about the steps taken to test the reliability of reported obligation amounts in reaching the affirmation. Additionally, none of the affirmations we reviewed, including ones that were submitted late, specifically noted that DOD's required variance analysis was one of the steps that supported the affirmation statement or disclosed key points related to their variance analysis.

We noted the Air Force affirmation statements for November 2006 and December 2006 did not contain the basis for the affirmations or disclose key issues resulting from its variance analysis. For example, November 2006 and December 2006 cost-of-war reports showed a significant change in reported amounts for military personnel obligations between these 2 months for Operation Noble Eagle. In November 2006, the reported obligations were \$436,000 which increased to over \$19 million the next month. A synopsis covering the key points of the Air Force's variance analysis could have helped assure report users that the Air Force had taken this change into consideration in affirming that its reported obligations were a fair representation of ongoing activities. We followed-up with an Air Force official on this reported change in obligations and found that the \$436,000 in reported obligations was a reporting error. However, we found no explanatory footnotes included with the reports that explained the increase, as required. As a result, cost-of-war report users had no information to determine whether this change reflected a valid operational change or a reporting error at the time the November or December reports were issued. As previously shown in figure 4, we determined that cost-of-war reports, issued during the 5-month period of our review, were missing 25 required explanations for Air Force obligations totaling about \$692 million.

Conclusions

Total DOD reported obligations for GWOT have been steadily increasing over the last 6 years, and are on track to grow even higher by the end of fiscal year 2007. In some cases, significant similarities exist between the

²⁹The Defense Contract Management Agency submitted 5 affirmations, Defense Threat Reduction Agency submitted 2 affirmations, and National Security Agency submitted 5 affirmations.

President's GWOT and base funding requests for DOD, making it difficult for decisions makers or the public to have a full, integrated picture of funding needs for any given policy. Without defining the longer-term war on terror and differentiating these costs from incremental costs of specific contingency operations, decision makers within the congressional and executive branches may not have a comprehensive view of overall funding needs to make potential trade-offs. We recognize emergency funding requests are necessary to support unforeseen costs of operations and that estimating future costs are challenging. This does not, however, mean that estimates for the expected costs of ongoing operations, for longer-term transformation, and for procurements should not be provided as part of the base budget. If the administration believes that the nature of the defense challenge facing the United States has changed and that the country is involved in a long-term conflict, the cost implications of that change should be part of the annual budget debate. The use of emergency funding requests and budget amendments for ongoing operations of some duration reduces transparency, impedes the necessary examination of investment priorities, inhibits informed debate about priorities and trade-offs and, in the end, reduces credibility.

DOD has taken steps to improve its GWOT-related cost-reporting procedures and GWOT cost reporting continues to evolve. At the same time, further actions are needed to develop more explicit guidance on variance analysis and affirmation statements to enhance the transparency of cost-of-war reports. Without more complete information and a more robust methodology, including standardized quality assurance processes, DOD does not have sufficient information to assess the reliability of obligation data. As we have previously reported, and DOD has acknowledged, systemic weaknesses persist in DOD's financial management systems and business operations, which continue to impair its financial information. Until more explicit guidance is provided, and further progress in resolving core financial management problems is achieved, DOD and the military services will have difficulty providing the public and Congress with reliable information on the cost of the war and details on how appropriated funds are being spent, or have historical information useful in determining future funding needs.

Recommendations for Executive Action

This report makes 11 recommendations. To improve transparency and fiscal responsibility related to funding the war on terrorism, and to permit Congress and the administration to establish priorities and make trade-offs among those priorities in defense funding, we recommend that the Secretary of Defense direct the Under Secretary of Defense (Comptroller)

to (1) issue guidance defining what constitutes the “longer war against terror,” identify what costs are related to that longer war, and build these costs into the base defense budget; (2) identify incremental costs of the ongoing GWOT operations that can be moved into the base budget; and (3) in consultation with the Office of Management and Budget consider limiting emergency funding requests to truly unforeseen or sudden events.

To help improve the reliability of the obligation information included in the monthly cost-of-war report, we recommend that the Secretary of Defense direct the Under Secretary of Defense (Comptroller) to take the following actions regarding the implementation of the variance analysis and affirmation statements:

- Develop and implement written procedures for DFAS to use in compiling the variance explanations and in performing quality assurance steps to monitor the process.
- Require DFAS to provide draft copies of the consolidated cost-of-war report to DOD components so that they can verify that all of their explanatory footnotes have been included.
- Develop and implement written procedures for the DOD Comptroller to periodically perform a DOD-wide analysis of the cost-of-war report and supporting explanations to identify trends and root causes of systemic reporting problems that should be considered and corrected during efforts to improve the cost-of-war reporting process.
- Conduct a study of the current formula for the variance analysis to determine whether it provides the most useful information for identifying anomalies and taking correcting action. At a minimum, such a study should consider the nature of the activity being analyzed, including whether the activity tends to be cyclical or more volatile, and whether a different baseline comparison, such as the average of the previous 12 months’ obligations, would result in improved analysis of obligation information.
- Revise guidance over the monthly affirmation statements to include criteria or factors that should be considered during the monthly review process.
- Revise the guidance over the monthly affirmation statements to require disclosure of the basis for affirmation statements, including key points of related variance analysis, if any, and sources used to obtain information on the amount of reported obligations.
- Take steps to ensure compliance with guidance on variance analysis and affirmation statements.
- Revise the cost-of-war report format to disclose when component management has not affirmed to the accuracy and fair representation of reported obligations or provided all variance explanations, as required.

Agency Comments and Our Evaluation

In written comments on a draft of this report, DOD generally agreed with 10 of our recommendations and did not agree or disagree with an 11th recommendation. The department's comments are discussed below and are reprinted in appendix IV. DOD also provided technical comments and we have incorporated them in the report as appropriate.

DOD agreed with our recommendation that guidance be issued to define what constitutes the "longer war against terror" and with the intent of our recommendation that more incremental needs of the ongoing GWOT operations be identified and moved into the base budget. However, DOD did not indicate that it plans to take any action to implement these recommendations. In its comments, DOD noted it had included funding in the base budget for initiatives that it characterized as reflecting requirements related to the longer war against terror, such as increasing Army and Marine Corps force levels, and regional war on terror initiatives. We recognize that DOD has requested funds for these items in the base budget. We also note that DOD has requested funding for some of the same items in its GWOT funding requests. For example, funding for increases in force levels is requested in both DOD's fiscal year 2008 base budget and GWOT funding requests. This type of overlap reinforces our point that the department needs to clarify the nature of its funding needs. Specifically, as stated in our report, without a clear definition of the "longer war against terror" and clearer distinctions between what constitutes incremental versus base costs, decision makers lack an integrated picture and the ability to set priorities and make trade-offs between the costs of ongoing operations and DOD's long-term funding needs. Also, we continue to believe that since operations in support of GWOT have been ongoing since 2001 and are therefore well beyond the initial phase where level of effort and costs are less known, DOD could identify additional incremental GWOT needs that could be moved into the base budget. Such action would assist the Congress in evaluating priorities for the department and making trade-offs among all funding needs. Therefore, we continue to believe our recommendations have merit and that DOD should take steps to implement the specific actions we recommended, which are to (1) issue guidance defining what constitutes the "longer war against terror," identify what costs are related to that longer war, and build these costs into the base defense budget and (2) identify incremental costs of the ongoing GWOT operations that can be moved into the base budget.

DOD did not agree or disagree with our third recommendation that the use of emergency funding requests be limited to truly unforeseen or sudden events. Instead, DOD noted that the Office of Management and Budget, not

the Secretary of Defense, makes the determination concerning the use of emergency funding requests. Therefore, to recognize the role of the Office of Management and Budget, we have changed the recommendation to read: “We recommend that the Secretary of Defense, in consultation with the Office of Management and Budget, consider limiting emergency funding requests to truly unforeseen or sudden events.”

Regarding the remaining eight recommendations to help improve the reliability of the obligation information included in the monthly cost-of-war report, DOD agreed with six and concurred with the intent of the remaining two recommendations.

DOD agreed with our six recommendations that cover analysis of reported cost-of-war information, review of the variance analysis methodology, and clarification of guidance on affirmation statements. DOD also identified actions that it stated are under way to further improve the cost-of-war reporting and variance analysis and affirmation processes, such as revising procedures for DFAS when compiling variance explanations, performing quality assurance, and monitoring the process and establishing a Variance Analysis/Affirmation Work Group to determine causes for noncompliance with variance and affirmation guidance and recommend improvements. Regarding revising the guidance relating to affirmation statements, DOD stated that the Under Secretary of Defense (Comptroller) provided clarification to the guidance on analysis of contingency operation costs in the DOD *Financial Management Regulation* and policy memorandums. At this time, we have not yet had an opportunity to evaluate DOD’s planned actions or the revised guidance to verify whether they meet the intent of our recommendations, but will review these actions and revisions as part of any follow-up work on GWOT cost reporting.

DOD concurred with the intent of our recommendation to provide DOD components with the opportunity to verify that all their explanatory footnotes have been included in cost-of-war reports. We agree that DOD’s proposed actions satisfy the intent of this recommendation. DOD also concurred with the intent of our remaining recommendation to revise the cost-of-war report format to disclose when component management has not affirmed to the accuracy and fair representation of reported obligations or provided all variance explanations, as required. Although DOD explained that it is already reviewing its procedures for submitting affirmation statements and variance explanations and the reasons for late submissions in an effort to correct the problem, DOD did not comment on whether it would disclose instances of noncompliance in cost-of-war reports. We continue to believe that users of the cost-of-war report should

have sufficient information to assess the reliability of reported cost information, including information about components that have not complied with steps intended to improve the reporting process.

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 Sharon Pickup at (202) 512-9619 or pickups@gao.gov or McCoy Williams at (202) 512-9095 or williamsm1@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix V.



Sharon L. Pickup
Director, Defense Capabilities and Management



McCoy Williams
Director, Financial Management and Assurance

List of Congressional Committees

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

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

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

The Honorable Ike Skelton
Chairman
The Honorable Duncan L. Hunter
Ranking Member
Committee on Armed Services
House of Representatives

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

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

Appendix I: Scope and Methodology

To assess the Department of Defense's (DOD) reported obligations for the Global War on Terrorism (GWOT) in fiscal year 2007, the outlook of obligations for the remainder of the fiscal year, and its funding requirements for fiscal year 2008, we analyzed DOD's *Supplemental and Cost of War Execution Reports* from October 2006 through June 2007 to identify reported obligations by operation and by appropriation account. 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 also reviewed applicable supplemental and annual appropriations in fiscal year 2007 and reviewed DOD reports on the transfer or reprogramming of funds among various appropriation accounts or budget activities to support GWOT. We then reviewed DOD's reported obligations for past fiscal years to determine if fiscal year 2007's reported obligations were greater than, equal to, or less than those of previous years. We also compared the military services' reported GWOT obligations through June 2007, the latest available reported obligation data at the time of our review, to the appropriations provided to calculate the proportion of funds obligated through June, and have included this analysis in appendix II. We then compared those proportions to the proportion of the fiscal year that has elapsed through June to assess whether funding is likely to be greater than, less than, or equal to obligations.¹ We also interviewed key officials from the Office of the Under Secretary of Defense (Comptroller) and the Army, Navy, Marine Corps, and Air Force to understand projected GWOT obligations through the end of the fiscal year. We recognize that funds are not obligated equally each month throughout the fiscal year and that the supplemental appropriation funding was not signed by the President until May.

GWOT obligations provided in this report are DOD's claimed obligations as reported in the DOD *Supplemental and Cost of War Execution Reports*. As previously reported, we found the data in DOD's *Supplemental and Cost of War Execution Reports* to be of questionable reliability. Consequently, we are unable to ensure that DOD's reported obligations for GWOT are complete, reliable, and accurate, and they should therefore be considered approximations. In addition, DOD has acknowledged that systemic weaknesses with its financial management systems and business operations continue to impair its financial information. Despite the

¹We compared what was appropriated for GWOT to the Army, Navy, Marine Corps and Air Force, for both active and reserve forces, in military personnel, operation and maintenance, and procurement to reported obligations, because these appropriations represent about 88 percent of the funds available in fiscal year 2007.

uncertainty about obligation data, we are reporting the information because it is the only way to approach an estimate of the costs of the war. Also, despite the uncertainty surrounding the true dollar figure for obligations, these data are used to advise Congress on the cost of the war.

To examine the effect of changes in DOD's GWOT funding guidance on DOD's base budget and GWOT funding requests, we reviewed relevant DOD policy and guidance relating to the submission of DOD's fiscal year 2007 emergency supplemental request for GWOT and its fiscal year 2008 GWOT funding request. We spoke with DOD officials regarding DOD's base budget and GWOT funding requests to determine what changes occurred in these submissions as a result of the guidance. We also interviewed key officials from the Office of the Under Secretary of Defense (Comptroller), Army, Navy, Marine Corps, and Air Force to determine how they interpreted and implemented this guidance.

To examine DOD's efforts to improve the reliability of GWOT obligation data, we reviewed guidance issued by DOD regarding analysis and reporting of obligations for contingencies, reviewed the data reported in DOD's cost-of-war reports, and interviewed key officials from the Office of the Under Secretary of Defense (Comptroller), Defense Finance and Accounting Service, Army, Navy, Marine Corps, and Air Force about their processes and procedures. We compared DOD's obligation data reported in DOD's monthly cost-of-war reports with funding DOD was provided in annual and supplemental appropriations to determine if any anomalies in the cost reporting had occurred.

To determine the extent to which the process for required variance explanations was effectively implemented, we reviewed the Office of the Under Secretary of Defense (Comptroller) guidance on variance analysis issued in August 2005 and June 2006, including the formula used to calculate the variance percentage and average amount of fiscal year obligations, which is called the burn rate. We obtained monthly files containing the October 2006 to March 2007 cost-of-war reports from the Defense Finance and Accounting Service—Indianapolis. Using the June 2006 Office of the Under Secretary of Defense (Comptroller) guidance, we analyzed reported obligations in cost-of-war report files applicable to fiscal year 2007 funding from November 2006 through March 2007 to identify the number of required variance explanations and the related amount of dollar obligations. We did not evaluate the adequacy of explanatory footnotes or confirm that errors reported in footnotes were corrected. We identified 25 cases for which a burn rate could not be calculated because the prior month's cumulative obligations for fiscal year

2007 were zero. For these cases, we calculated a burn rate based on the prior 12 months' cumulative obligations. October 2006 obligations were not analyzed because the fiscal year 2006 cost-of-war report information needed to perform the variance calculation was not readily available. We also did not include the cost categories for investment costs, Iraq Security Force Fund, or Afghanistan Security Force Fund because the annual spending plans needed to perform the variance calculation were not readily available. We met with representatives from the Office of the Under Secretary of Defense (Comptroller) and officials in Defense Finance and Accounting Service—Indianapolis and held periodic telephone discussions with them from May 2007 to August 2007 regarding oversight responsibilities for the cost-of-war reporting process, and other analyses for improving the reliability of the monthly cost-of-war report. We also requested the variance explanations submitted by DOD components to Defense Finance and Accounting Service—Indianapolis. We compared required variance explanations identified by our work to those obtained from the Defense Finance and Accounting Service—Indianapolis and reported with the monthly cost-of-war report. In July 2007, we met with military service representatives for the budget offices of the Army Navy, Marine Corps and Air Force, to discuss their respective processes for preparing variance explanations, and requested the variance explanations submitted to Defense Finance and Accounting Service—Indianapolis for the monthly cost-of-war report. We focused on the military services because their reported obligations represented almost 94 percent of the funds obligated in the cost categories we reviewed from November 2006 to March 2007. We also compared required variance explanations identified by our work to those obtained directly from the four military services. Finally, we documented whether a required variance explanation was included in the explanatory footnotes to the monthly cost-of-war report.

To determine the extent to which the process for required affirmations was effectively implemented, we reviewed the Office of the Under Secretary of Defense (Comptroller) guidance on affirmation statements issued by DOD components in March 2006 and June 2006. We met with representatives from the Office of the Under Secretary of Defense (Comptroller) and officials in the Defense Finance and Accounting Service—Indianapolis and had periodic telephone discussions with them from May 2007 to August 2007 regarding oversight responsibilities for the affirmation process. Defense Finance and Accounting Service—Indianapolis staff provided us with copies of the affirmations submitted by DOD components from November 2006 to March 2007 for the monthly cost-of-war report, as well as information used to track the monthly submission of affirmations. We met with military service representatives in

July 2007 from the budget offices of the Army, Navy, Marine Corps and Air Force to discuss their process for reporting affirmations, and requested the affirmations prepared and submitted to the Defense Finance and Accounting Service–Indianapolis for the monthly cost-of-war report. Finally, we reviewed the affirmations and the Defense Finance and Accounting Service tracking information, and documented when affirmations were missing or were provided to the Defense Finance and Accounting Service–Indianapolis after the reporting deadline.

We interviewed DOD representatives regarding GWOT obligations, policy, guidance, and funding for fiscal year 2007 and the reliability of cost reporting in the following locations:

- Office of the Under Secretary of Defense (Comptroller), Washington, D.C.
- Defense Finance and Accounting Service Center, Indianapolis, Indiana.
- Headquarters, Department of the Army, Washington, D.C.
- U.S. Army Installation Management Command, Washington, D.C.
- Headquarters, U.S. Army Forces Command and Headquarters, Third Army (Army Central Command), Fort McPherson, Georgia.
- Army Materiel Command, Fort Belvoir, Virginia.
- Army Budget Office, Virginia.
- Headquarters, U.S. Marine Corps, Washington, D.C.
- Marine Corps Central Command, MacDill Air Force Base, Florida.
- Department of the Navy, Headquarters, Washington, D.C.
- Department of the Air Force, Headquarters, Washington, D.C.
- Air Force Air Combat Command, Langley Air Force Base, Virginia.
- Navy Aircraft Structural Life Surveillance Branch, Patuxent River Naval Air Station, Maryland

We performed our work from November 2006 through August 2007 in accordance with generally accepted government auditing standards.

Appendix II: DOD's Fiscal Year 2007 GWOT Appropriations and Obligations

In fiscal year 2007, Congress provided the Department of Defense (DOD) with about \$161.8 billion in annual and supplemental appropriations¹ for the Global War on Terrorism (GWOT), of which about \$142.9 billion was appropriated to the military services for military personnel, operation and maintenance, and procurement. The remaining funds, about \$18.9 billion, were provided for defensewide agencies; research, development, test and evaluation; and military construction. As shown in table 1, the military services received about \$17.7 billion for military personnel, about \$82.7 billion for operation and maintenance, and about \$42.4 billion for procurement.

Table 1: Fiscal Year 2007 Appropriations Identified for GWOT for the Military Services

Dollars in billions					
	Army	Navy	Marine Corps	Air Force	Total
Military Personnel					
Title IX	4.7	0.1	0.2	0.4	
Supplemental	9.1	0.8	1.4	1.1	
Total	13.8	0.9	1.5	1.5	17.7
Operation and Maintenance					
Title IX	31.7	1.6	2.7	2.7	
Supplemental	31.3	4.8	1.2	6.7	
Total	63.0	6.4	3.9	9.4	82.7
Procurement					
Title IX	10.1	1.0	4.9	1.8	
Supplemental	15.9	2.2	2.3	4.3	
Total	26.0	3.2	7.2	6.1	42.4
Grand Total					142.9

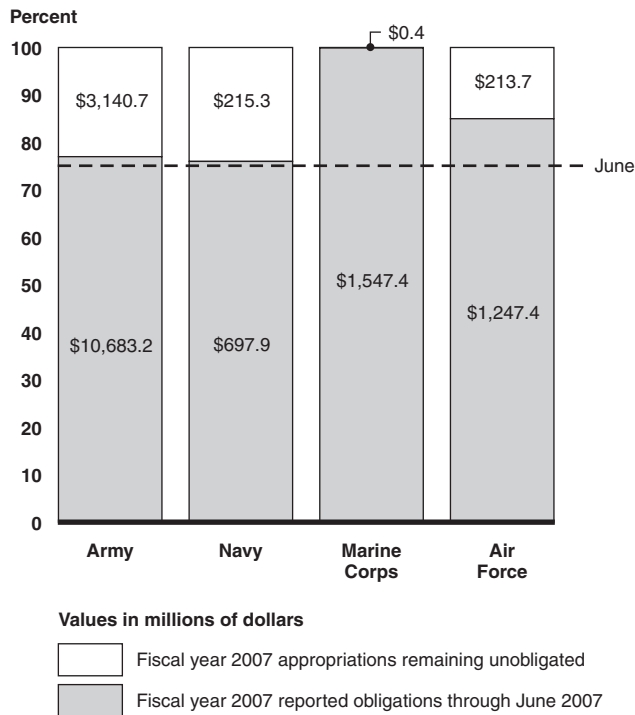
Source: GAO analysis of Pub. L. No. 109-289 (2006) and Pub. L. No. 110-28 (2007).

As of June 2007, military services reported obligating approximately 80 percent of military personnel funds provided in fiscal year 2007 for operations in support of GWOT. The Army and Navy have been obligating funds for military personnel at a rate that nearly mirrors the percentage of

¹Of the \$161.8 billion, Congress provided \$67.4 billion in Title IX of the Department of Defense Appropriations Act, 2007 as bridge funding to support ongoing operations early in the fiscal year. Congress provided the remaining \$94.4 billion in the U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Act, 2007.

the fiscal year that has passed, while the Marine Corps and Air Force have experienced a more rapid execution of obligations. As figure 5 shows, after 9 months, or 75 percent of the fiscal year, the Army reported obligations of 77 percent, the Navy 76 percent, the Marine Corps nearly 100 percent, and Air Force 85 percent of available GWOT military personnel appropriations. The Air Force is reporting higher than anticipated obligations for military personnel due to the methods the Air Force Reserve and Air National Guard use to distribute pay and report obligations. A portion of the Air Force reserve component's pay is provided in a lump sum as personnel are activated for duty. Rather than a consistent and gradual rise in military personnel obligations over the course of the fiscal year, the Air Force will report significant periodic rises in the fiscal year's cumulative military personnel obligations. According to Air Force officials, the total reported obligations for military personnel will decrease in the later months of the fiscal year. Marine Corps obligations data reported through June 2007 show a higher than expected rate of military personnel obligations due to cost-reporting errors within the service's monthly *Supplemental and Cost of War Execution Report* data submission. According to a Marine Corps official, military personnel obligations for June 2007 were inadvertently entered twice into the service's Standard Accounting, Budgeting, and Reporting System which is used to compile data submissions to the Defense Finance and Accounting Service for the monthly cost-of-war report. According to Marine Corps officials, errors in reporting were related to staff turnover and inexperience amongst new personnel with the cost-reporting process. Further, officials expect the reporting problems to be corrected in future cost-of-war reports.

Figure 5: Military Services' Fiscal Year 2007 Reported GWOT Military Personnel Obligations of Appropriations Identified for GWOT through June 2007



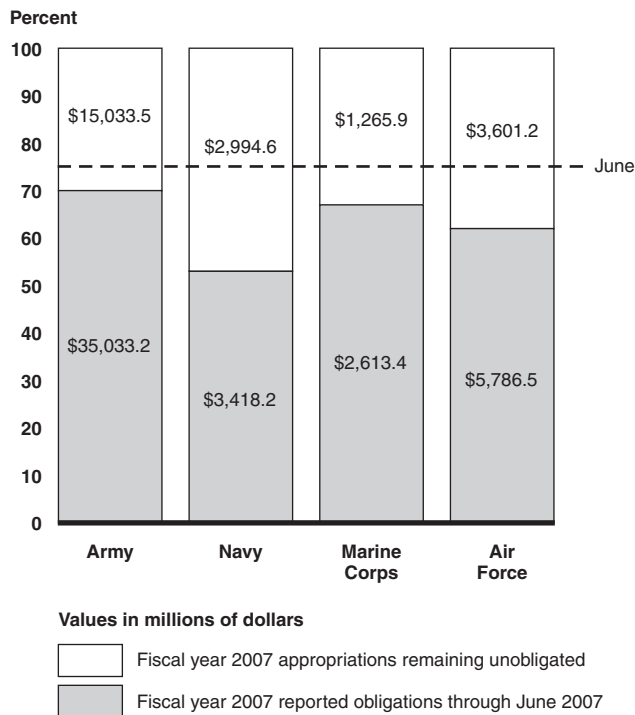
Source: GAO analysis of DOD data.

Note: June represents 75 percent of the fiscal year. The line above is an indication of where DOD would be if it had obligated its available funding equally each month throughout the fiscal year. Reported obligations include those from both the active and reserve components. We have previously assessed the reliability of DOD's obligations data and found that they may not accurately reflect the true dollar value of GWOT obligations.

As shown in figure 6, after 9 months, or 75 percent of the fiscal year, the Army reported obligations of 70 percent, the Navy 53 percent, the Marine Corps 67 percent, and the Air Force 62 percent of available GWOT operation and maintenance funds. All services reported lower than anticipated obligation rates for operation and maintenance. Both the Air Force and Navy officials, the two services with the lowest reported obligations, stated that execution of funds was slowed as a result of the delayed fiscal year 2007 GWOT supplemental appropriation and that obligation rates are expected to increase later in the fiscal year. For example, the Navy, the service with the lowest reported obligations for operation and maintenance, deferred obligations for facilities, sustainment, restoration, and modernization activities due to the delay in receipt of supplemental funding. Navy officials further stated although

supplemental appropriations were approved in May, a number of contracts for these activities were not finalized in June, resulting in lower than expected Navy operation and maintenance obligations. Navy officials indicated that obligations for operation and maintenance will likely increase in the July 2007 DOD *Supplemental and Cost of War Execution Report*. Similarly, the Air Force responded to the delay of supplemental appropriations by deferring certain GWOT obligations, without causing operational effects. For example, some requests to the Air Force for airlift were filled and flown on time, but payment of these obligations was delayed until June. According to Air Force officials, the obligation rate for operation and maintenance is expected to increase during July of fiscal year 2007.

Figure 6: Military Services' Fiscal Year 2007 Reported GWOT Operation and Maintenance Obligations of Appropriations Identified for GWOT through June 2007

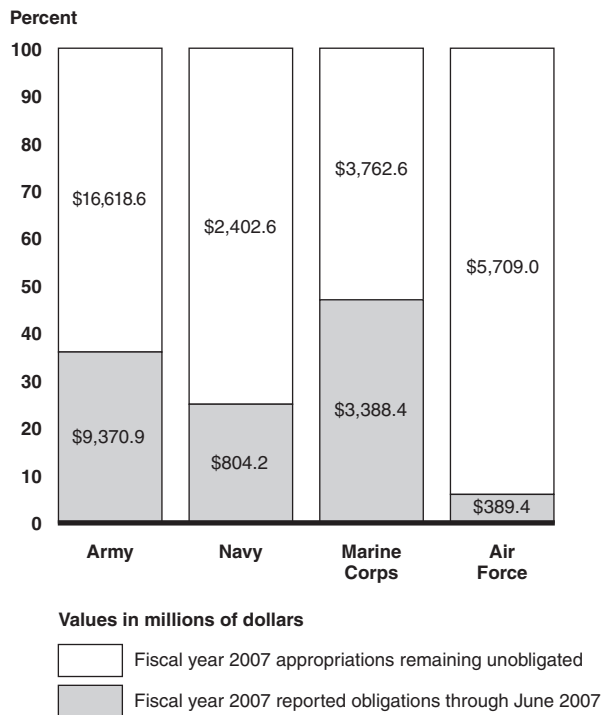


Source: GAO analysis of DOD data.

Note: June represents 75 percent of the fiscal year. The line above is an indication of where DOD would be if it had obligated its available funding equally each month throughout the fiscal year. Reported obligations include those from both the active and reserve components. We have previously assessed the reliability of DOD's obligations data and found that they may not accurately reflect the true dollar value of GWOT obligations.

For fiscal year 2007, the military services were appropriated 97 percent more for procurement than for fiscal year 2006, about \$42.5 billion. Approximately one-third or about \$14 billion of these fiscal year 2007 procurement appropriations have been obligated through June. About 60 percent or \$24.7 billion of the procurement funds were provided in the fiscal year 2007 GWOT supplemental appropriation, which was not signed into law until late May 2007. Since these procurement funds are available for obligation over multiple years, some procurement funding will likely be obligated in fiscal year 2008 and beyond. As shown in figure 7, the Army has reported obligations of 36 percent, the Navy 25 percent, the Marine Corps 47 percent, and the Air Force 6 percent of available fiscal year 2007 procurement appropriations.

Figure 7: Military Services' Fiscal Year 2007 Reported GWOT Procurement Obligations of Appropriations Identified for GWOT through June 2007



Source: GAO analysis of DOD data.

Note: Portions of the military services fiscal year 2007 GWOT procurement appropriations are for classified programs and obligations against these funds will not be reflected in reported obligations. Therefore, differences between reported obligations and funding could potentially be lower than is reflected. We have previously assessed the reliability of DOD's obligations data and found that they may not accurately reflect the true dollar value of GWOT obligations.

Appendix III: Process for Calculating Variance Analyses

The revised June 2006 guidance requires Department of Defense (DOD) components to compare variance percentages to established threshold percentages for the cost categories, Military Personnel, Civilian Personnel, Personnel Support, Operating Support, Transportation, Working Capital Fund Support, Investment Costs, and Iraqi and Afghanistan Security Forces Funds. Determining the reasons for changes in these percentages or changes in reported Global War on Terrorism (GWOT) obligation amounts could be important red flags that may indicate questionable or erroneous reporting. For each cost category total except Investment Costs, and Iraqi and Afghanistan Security Forces Funds,¹ the guidance requires the calculation of the variance percentage by dividing the current month obligations, minus the burn rate, by the average monthly obligations incurred thus far during the fiscal year, except for October, the first month of the fiscal year. The burn rate is an average that is computed based on the prior months' cumulative obligations for the current fiscal year. For example, the burn rate for December's calculation is the average of October's and November's obligations (2 months). On the other hand, the burn rate for October's calculation is an average of the prior 12 months' obligations. Variance percentages are required to be computed using the following formula: $(\text{current month obligations} - \text{burn rate}) / \text{burn rate}$. Table 2 shows how DOD calculates the burn rate for the purposes of the variance analysis.

¹Analysis of Investments and Iraqi and Afghanistan Security Forces Funds required a monthly review of reported costs compared to the corresponding month on the annual spending plan.

Table 2: DOD’s Formula for Calculating the Burn Rate for the Variance Analysis of Reported GWOT Obligation Amounts

Reporting month	Comparative burn rate calculation
October	Prior fiscal year costs / 12
November	October costs
December	October through November costs / 2
January	October through December costs / 3
February	October through January costs / 4
March	October through February costs / 5
April	October through March costs / 6
May	October through April costs / 7
June	October through May costs / 8
July	October through June costs / 9
August	October through July costs / 10
September	October through August costs / 11

Source: DOD.

Note: Information is from DOD Comptroller Memorandum “Revised Instructions for Analysis of Contingency Operation Costs” (June 13, 2006).

If the calculated variance percentage exceeds the established threshold, an explanation is required. Table 3 shows the thresholds for the cost categories included in the variance analysis requirements.

Table 3: Thresholds for Determining If an Explanation Is Required for a Variance

Cost category	Allowable variance (in percent, plus or minus)
Military Personnel	15
Civilian Personnel	15
Personnel Support	20
Operating Support	25
Transportation	20
Working Capital Fund Support	15

Source: DOD.

Note: Information is from DOD Comptroller Memorandum “Revised Instructions for Analysis of Contingency Operation Costs” (June 13, 2006). Obligations for two other cost categories: Investments and Iraqi and Afghanistan Security Forces Funds, require comparative analysis against their respective annual spending plan, plus or minus 30 percent, instead of prior month’s obligations.

Appendix IV: Comments from the Department of Defense



COMPTROLLER

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

OCT 29 2007

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

Dear Ms. Pickup:

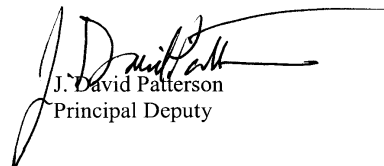
Attached is the Department of Defense (DoD) response to the Government Accountability Office (GAO) Draft Report GAO 08-08, "GLOBAL WAR ON TERRORISM: DoD Needs to Take Action to Encourage Fiscal Discipline and Optimize the Use of Tools Intended to Improve GWOT Cost Reporting," dated October 8, 2007 (GAO Code 350947).

The Department generally agrees with the recommendations to improve reliability of the Cost of War report and is developing additional procedures to ensure compliance with the variance analysis explanations and affirmation statements policies.

The Department has taken additional steps to improve the cost reporting process. We have implemented a performance measure to track timeliness of Component submission of cost data, variance explanations and affirmation statements. This measure will be used to rate the DoD status on the President's Management Agenda Scorecard for Improved Cost of War Reporting. We have also established a GWOT Variance Analysis/Affirmation Workgroup to review and address causes for late submission of variance analysis explanations and affirmation statements.

The Department generally agrees with the recommendations related to changes in the DoD's future budget request for GWOT needs. We will continue to follow the Administration's guidance regarding budget submissions.

Sincerely,



J. David Patterson
Principal Deputy

Attachment:
As stated

GAO DRAFT REPORT – DATED OCTOBER 2, 2007
GAO CODE 350947 /GAO-08-68

"GLOBAL WAR ON TERRORISM: DoD Needs to Take Action to Encourage Fiscal
Discipline and Optimize the Use of Tools Intended to Improve GWOT Cost Reporting"

DEPARTMENT OF DEFENSE COMMENTS
TO THE RECOMMENDATIONS

RECOMMENDATION 1: The GAO recommends that the Secretary of Defense direct the Under Secretary of Defense (Comptroller) to issue guidance defining what constitutes the "longer war against terror," identify what costs are related to that longer war, and build these costs into the base defense budget.

DOD RESPONSE: Concur. The Department included funding in the base budget to reduce the stress on the ground forces by increasing the Army and Marine Corps force level by 92,000 end strength by FY 2012. The base budget also included \$745 million to support regional war on terror initiatives. The base budget request provided \$500 million for Global Train and Equip efforts. All of these initiatives reflect the Department's effort to include appropriate requirements related to the longer war on terror in the base budget. The "longer war" includes incremental costs of the GWOT and funds anticipated insurgent activity, and unforeseen and sudden events, which are GAO validated uses of GWOT funds. As in previous GWOT requests, this would include battle losses and reconstitution of equipment, which are not items that would be included in the base budget.

RECOMMENDATION 2: The GAO recommends that the Secretary of Defense direct the Under Secretary of Defense (Comptroller) to identify incremental needs of the ongoing Global War on Terrorism operations that can be moved into the base budget.

DOD RESPONSE: Concur with the intent of the recommendation. Incremental needs are defined as additional costs to DoD Components that would not have been incurred if a contingency operation, like Operation Enduring Freedom or Operation Iraqi Freedom, had not been supported. The Department included funding in the base budget to reduce the stress on the ground forces by increasing the Army and Marine Corps force level by 92,000 end strength by FY 2012. The base budget also included \$745 million to support regional war on terror initiatives. The base budget request provided \$500 million for Global Train and Equip efforts. The FY2007 appropriated supplemental funds and the FY2008 GWOT request are for incremental needs associated with military operations, force protection, reconstitution, and military intelligence above and beyond base operations. The FY2008 GWOT request was included with the FY2008 President's

Budget Request, and the Department provided over 6,000 pages of budget justification material to support the request.

RECOMMENDATION 3: The GAO recommends that the Secretary of Defense direct the Under Secretary of Defense (Comptroller) to limit the use of emergency funding requests to truly unforeseen or sudden events.

DOD RESPONSE: The Secretary of Defense does not make the determination concerning use of emergency funding requests. The Office of Management and Budget makes that determination.

RECOMMENDATION 4: The GAO recommends that the Secretary of Defense direct the Under Secretary of Defense (Comptroller) to develop and implement written procedures for DFAS to use in compiling the variance explanations and in performing quality assurance steps to monitor the process.

DOD RESPONSE: Concur. The Department is currently refining and will implement revised procedures for the Defense Finance and Accounting Service to use when compiling variance explanations, performing quality assurance, and monitoring the process.

ESTIMATED COMPLETION DATE: December 15, 2007

RECOMMENDATION 5: The GAO recommends that the Secretary of Defense direct the Under Secretary of Defense (Comptroller) to require the Defense Finance and Accounting Service to provide draft copies of the consolidated Cost of War (CoW) report to DoD Components so that they can verify that all of their explanatory footnotes have been included.

DOD RESPONSE: Concur with the intent of the recommendation. The Defense Finance and Accounting Service (DFAS) is taking steps to improve the Global War on Terror Cost of War (CoW) footnote compilation process. The process will allow the Components an opportunity to review their portion of the draft footnotes prior to release of the final CoW report and identify any missing information. The DFAS plans to implement this revised process by December 15, 2007 for FY 2008 reporting. In addition, the Department has established a performance measure to track compliance with prescribed footnote requirements.

ESTIMATED COMPLETION DATE: December 15, 2007 (in conjunction with October 2007 CoW reporting)

RECOMMENDATION 6: The GAO recommends that the Secretary of Defense direct the Under Secretary of Defense (Comptroller) to develop and implement written procedures for the DoD Comptroller to periodically perform a DoD-wide analysis of the cost-of-war report and supporting explanations to identify trends and root causes of systemic reporting problems that should be considered and corrected during efforts to improve the cost-of-war reporting process.

DOD RESPONSE: Concur. The Defense Finance and Accounting Service is developing procedures to review variance explanations to identify systemic problems and work with the Component to address possible solutions.

ESTIMATED COMPLETION DATE: January 31, 2008

RECOMMENDATION 7: The GAO recommends that the Secretary of Defense direct the Under Secretary of Defense (Comptroller) to conduct a study of the current formula for the variance analysis to determine whether it provides the most useful information for identifying anomalies and taking correcting action. At a minimum, such a study should consider the nature of the activity being analyzed, including whether the activity tends to be cyclical or more volatile, and whether a different baseline comparison, such as the average of the previous 12 months' obligations, would result in improved analysis of obligation information.

DOD RESPONSE: Concur. The current variance analysis methodology is effective in identifying reported amounts that require further research. Prior to issuing the revised guidance in June 13, 2006, the Department reviewed the methodology, to include a rolling 12-month average, and determined that the current year burn-rate methodology was most representative of Global War on Terror (GWOT) activity. The GAO findings point to noncompliance by the Components in providing the required variance explanations. The Department has established a GWOT Variance Analysis/Affirmation Workgroup to determine the causes for the non-compliance. As part of the review, the Workgroup will determine if changes to the current variance analysis methodology will assist the Components in timely submission of required explanations.

ESTIMATED COMPLETION DATE: December 15, 2007

RECOMMENDATION 8: The GAO recommends that the Secretary of Defense direct the Under Secretary of Defense (Comptroller) to revise guidance over the monthly affirmation statements to include criteria or factors that should be considered during the monthly review process.

DOD RESPONSE: Concur. The Under Secretary of Defense (Comptroller) provided clarification to the guidance on analysis of contingency operations costs in the DoD Financial Management Regulation and policy memorandums.

RECOMMENDATION 9: The GAO recommends that the Secretary of Defense direct the Under Secretary of Defense (Comptroller) to revise the guidance over the monthly affirmation statements to require disclosure of the basis for affirmation statements, including key points of related variance analysis, if any, and sources used to obtain information on the amount of reported obligations.

DOD RESPONSE: Concur. The Under Secretary of Defense (Comptroller) provided clarification to the guidance on analysis of contingency operations costs in the DoD Financial Management Regulation and policy memorandums.

RECOMMENDATION 10: The GAO recommends that the Secretary of Defense direct the Under Secretary of Defense (Comptroller) to take steps to ensure compliance with guidance on variance analysis and affirmation statements.

DOD RESPONSE: Concur. The Department has established a Cost of War reporting performance measure to track, measure, and report the Components' compliance with the existing policy. The consolidated results will be used to measure the Department's status in achieving Improved Cost of War Reporting on the President's Management Agenda scorecard. The Department has also established a Global War on Terror (GWOT) Variance Analysis/Affirmation Workgroup to determine causes for non-compliance with current variance analysis and affirmation guidance and recommend improvements.

ESTIMATED COMPLETION DATE: December 15, 2007

RECOMMENDATION 11: The GAO recommends that the Secretary of Defense direct the Under Secretary of Defense (Comptroller) to revise the cost-of-war report format to disclose when Component management has not affirmed to the accuracy and fair representation of reported obligations or provided all variance explanations, as required.

DOD RESPONSE: Concur with the intent of the recommendation. The Department is already reviewing its procedures for submitting affirmation statements and variance explanations and the reasons behind late submissions in an effort to correct the problem.

Appendix V: GAO Contact and Staff Acknowledgments

GAO Contact

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

McCoy Williams, (202) 512-6906 or williamsm1@gao.gov

Acknowledgments

In addition to the contact named above, Ann Borseth, Assistant Director; Mary Ellen Chervenik, Assistant Director; Glenn Slocum, Assistant Director; Lisa Brownson; Francine DelVecchio; Susan Ditto; George Duncan; Tiffany Epperson; Karl E. Essig; Richard Geiger; Ron La Du Lake; Jennifer Leone; John A. Long; Brian Mateja; Lonnie McAllister; Christopher Miller; Steve Pruitt; Thomas Twambly; and George Warnock made key contributions to this report.

Related GAO Products

DOD Business Transformation: Lack of an Integrated Strategy Puts the Army's Asset Visibility System Investments at Risk. [GAO-07-860](#). Washington, D.C.: July 27, 2007.

Global War on Terrorism: Reported Obligations for the Department of Defense. [GAO-07-1056R](#). Washington, D.C.: July 26, 2007.

Global War on Terrorism: Reported Obligations for the Department of Defense. [GAO-07-783R](#). Washington, D.C.: May 18, 2007.

DOD Business Systems Modernization: Progress Continues to Be Made in Establishing Corporate Management Controls, but Further Steps Are Needed. [GAO-07-733](#). Washington, D.C.: May 14, 2007.

Federal Financial Management: Critical Accountability and Fiscal Stewardship Challenges Facing Our Nation. [GAO-07-542T](#). Washington, D.C.: March 1, 2007.

High Risk Series: An Update. [GAO-07-310](#). Washington, D.C.: January 31, 2007.

Global War On Terrorism: Fiscal Year 2006 Obligation Rates Are Within Funding Levels and Significant Multiyear Procurement Funds Will Likely Remain Available for Use in Fiscal Year 2007. [GAO-07-76](#). Washington, D.C.: November 13, 2006.

Global War on Terrorism: Observations on Funding, Costs, and Future Commitments. [GAO-06-885T](#). Washington, D.C.: July 18, 2006.

Global War on Terrorism: DOD Should Consider All Funds Requested for the War When Determining Needs and Covering Expenses. [GAO-05-767](#). Washington, D.C.: September 28, 2005.

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.: September 21, 2005.

DOD Business Transformation: Sustained Leadership Needed to Address Long-standing Financial and Business Management Problems. [GAO-05-723T](#). Washington, D.C.: June 8, 2005.

Defense Management: Key Elements Needed to Successfully Transform DOD Business Operations. [GAO-05-629T](#). Washington, D.C.: April 28, 2005.

High-Risk Series: An Update. [GAO-05-207](#). Washington, D.C.: January 1, 2005.

Department of Defense: Further Actions Are Needed to Effectively Address Business Management Problems and Overcome Key Business Transformation Challenges. [GAO-05-140T](#). Washington, D.C.: November 18, 2004.

Military Pay: Army Reserve Soldiers Mobilized to Active Duty Experienced Significant Pay Problems. [GAO-04-911](#). Washington D.C.: August 20, 2004.

Military Pay: Army Reserve Soldiers Mobilized to Active Duty Experienced Significant Pay Problems. [GAO-04-990T](#). Washington D.C.: July 20, 2004.

Military Pay: Army National Guard Personnel Mobilized to Active Duty Experienced Significant Pay Problems. [GAO-04-413T](#). Washington D.C.: January 24, 2004.

Military Pay: Army National Guard Personnel Mobilized to Active Duty Experienced Significant Pay Problems. [GAO-04-89](#). Washington D.C.: November 13, 2003.

Contingency Operations: DOD's Reported Costs Contain Significant Inaccuracies. [GAO/NSIAD-96-115](#). Washington, D.C.: May 17, 1996.

DOD Budget: Analysis of Options for Funding Contingency Operations. [GAO/NSIAD-94-152BR](#). Washington, D.C.: April 26, 1994.

GAO's Mission

The Government Accountability Office, the audit, evaluation, and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's Web site (www.gao.gov). Each weekday, GAO posts newly released reports, testimony, and correspondence on its Web site. To have GAO e-mail you a list of newly posted products every afternoon, go to www.gao.gov and select "E-mail Updates."

Order by Mail or Phone

The first copy of each printed report is free. Additional copies are \$2 each. A check or money order should be made out to the Superintendent of Documents. GAO also accepts VISA and Mastercard. Orders for 100 or more copies mailed to a single address are discounted 25 percent. Orders should be sent to:

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

To order by Phone: Voice: (202) 512-6000
TDD: (202) 512-2537
Fax: (202) 512-6061

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: www.gao.gov/fraudnet/fraudnet.htm

E-mail: fraudnet@gao.gov

Automated answering system: (800) 424-5454 or (202) 512-7470

Congressional Relations

Gloria Jarmon, Managing Director, JarmonG@gao.gov, (202) 512-4400
U.S. Government Accountability Office, 441 G Street NW, Room 7125
Washington, DC 20548

Public Affairs

Chuck Young, Managing Director, youngc1@gao.gov, (202) 512-4800
U.S. Government Accountability Office, 441 G Street NW, Room 7149
Washington, DC 20548