

Inspector General

United States
Department of Defense



DoD Cost of War Reporting of Supplemental Funds
Provided for Procurement and Research, Development,
Test, and Evaluation

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Acronyms and Abbreviations

AMC	Army Materiel Command
ASAF(FM&C)	Office of the Assistant Secretary of the Air Force (Financial Management and Comptroller)
CONOPS	Contingency Operations
DARPA	Defense Advanced Research Projects Agency
DFAS	Defense Finance and Accounting Service
DFAS-IN	Defense Finance and Accounting Service-Indianapolis
FMB	Financial Management Budget
GAO	Government Accountability Office
GWOT	Global War on Terror
IG	Inspector General
NAVAIR	Naval Air Systems Command
NAVSEA	Naval Sea Systems Command
RDT&E	Research, Development, Test, and Evaluation
SAF/FMBI	Office of the Deputy Assistant Secretary of the Air Force for Financial Management and Comptroller, Directorate of Budget Investment
SOP	Standard Operating Procedures
SSP	Strategic Systems Programs



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

February 27, 2009

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE
(COMPTROLLER)/DoD CHIEF FINANCIAL OFFICER

SUBJECT: DoD Cost of War Reporting of Supplemental Funds Provided for
Procurement and Research, Development, Test, and Evaluation
(Report No. D-2009 -058)

We are providing this report for your information and use. We considered your comments on a draft of this report when preparing the final report.

Comments on the draft of this report conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, we do not require any additional comments.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 604-9201 (DSN 664-9201).

A handwritten signature in blue ink, reading "Richard B. Jolliffe", is positioned above the printed name.

Richard B. Jolliffe
Assistant Inspector General
Acquisition and Contract Management

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February 27, 2009



Results in Brief: DoD Cost of War Reporting of Supplemental Funds Provided for Procurement and Research, Development, Test, and Evaluation

What We Did

We reviewed the processes that comptroller personnel in the Office of the Secretary of Defense, Army, Navy, Air Force, Marine Corps, and Defense Finance and Accounting Service used to prepare sections of the cost of war report pertaining to procurement and research, development, test, and evaluation funds to determine whether management effectively prepared those reports.

What We Found

We determined that the Office of the Under Secretary of Defense (Comptroller)/DoD Chief Financial Officer [USD(C)/CFO] needs to improve its controls over the DoD Components' cost of war reporting process to provide reasonable assurance regarding the reliability of obligation information reported in the "Department of Defense (DoD) Supplemental and Cost of War Execution Report" for procurement and research, development, test, and evaluation funds.

Specifically, the USD(C)/CFO did not ensure that the DoD Components and subordinate reporting entities:

- developed and issued standard operating procedures and other supplemental guidance on contingency cost reporting;
- verified reported cost data; and
- submitted affirmation statements.

What We Recommend

We recommend that the USD(C)/CFO:

- verify that the DoD Components and subordinate reporting entities have

developed and issued standard operating procedures and ensure that the standard operating procedures reiterate the requirement to include affirmation statements with their cost of war data;

- require the DoD Components and subordinate reporting entities to verify that their cost data are accurate, complete, supportable, and properly affirmed; and
- require the Defense Finance and Accounting Service-Indianapolis to ensure the submission of affirmation statements that accompany the monthly cost statements and associated analysis.

Management Comments and Our Response

The USD(C)/CFO agreed with the recommendations of the report and we considered the comments responsive. The First Assistant, Deputy Assistant Secretary of the Navy (Financial Management and Comptroller) and the Acting Inspector General, Naval Air Systems Command, although not required to respond, also agreed with comments to the report. In addition, the Comptroller, Defense Advance Research Projects Agency, also not required to respond to the report, generally agreed with the recommendations, but did not agree with several report statements specific to Defense Advance Research Projects Agency. Based on the comments, we clarified the report as deemed necessary. The full text of the comments provided appears in the Management Comments section of this report. See the recommendations table on the back of this page.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Under Secretary of Defense (Comptroller)/DoD Chief Financial Officer		1., 2., 3.

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Introduction

Objectives

This audit was derived from Project D2006-D000AE-0241.000, “DoD Use of Global War on Terror Supplemental Funding Provided for Procurement and Research, Development, Test, and Evaluation,”¹ which was announced August 4, 2006, with the audit objective of evaluating the adequacy of the DoD financial controls over use of Global War on Terror (GWOT) supplemental funding provided for procurement and Research, Development, Test, and Evaluation (RDT&E). During our review, we identified weaknesses in DoD’s reporting processes. Although the Under Secretary of Defense (Comptroller)/DoD Chief Financial Officer [USD(C)/CFO] had begun to implement measures to improve those processes, we determined that further action needed to be taken. As a result, we revised our audit approach to incorporate additional work to address the cost of war reporting process. The primary audit objective of this spin-off audit was to determine whether management was effectively preparing sections of the DoD supplemental and cost of war execution report pertaining to obligations of procurement and RDT&E funds. We focused our review on the GWOT reporting process and the internal control environment. We did not specifically review the accuracy of the costs reported nor did we evaluate transactions to determine whether total costs were misstated. See Appendix A for a discussion of the scope and methodology and prior coverage related to the audit objectives.

Background

This report is the second in a series of reports that address the adequacy of DoD financial controls over the use of GWOT supplemental and bridge funding provided for procurement and RDT&E. The first report addressed the Air Force’s financial controls for issuing, identifying, and using GWOT supplemental funds. The final report will address the Army, Navy, Marine Corps, Defense-wide agencies, National Guard, and Reserve Components financial controls over the use of GWOT funds. This report addresses the internal controls for preparing the DoD supplemental and cost of war execution report (cost of war report) pertaining to obligations of procurement and RDT&E funding. Appendix B provides a glossary of technical terms used in this report.

Global War on Terror

Following the terrorist attacks of September 11, 2001, the United States initiated military operations to combat terrorism in the United States, Afghanistan, and Iraq. Military operations related to Afghanistan and Iraq are known as Operation Enduring Freedom and Operation Iraqi Freedom, respectively. Efforts to defend the United States from further terrorist attacks are referred to as Operation Noble Eagle. These operations are

¹ The name of the audit for Project No. D2006-D000AE-0241.000 changed to “Air Force Use of Global War on Terrorism Funding Provided for Procurement and Research, Development, Test, and Evaluation.” This audit report was published in final form on November 21, 2007.

collectively referred to as GWOT. The USD(C)/CFO considers GWOT a contingency operation and requests funding from Congress for GWOT through emergency supplemental and bridge appropriations.

DoD Supplemental and Cost of War Report

Public Law 109-163, “National Defense Authorization Act for Fiscal Year 2006,” Subtitle C, “Reports and Sense of Congress Provisions,” January 6, 2006, and DoD Regulation 7000.14-R, “Department of Defense Financial Management Regulation,” volume 12, chapter 23, “Contingency Operations,” September 2007,² require DoD to prepare the cost of war report.

Congressional Requirement

In Public Law 109-163, Congress requires the Secretary of Defense to submit monthly the cost of war report to the Government Accountability Office (GAO). Based on these reports, GAO is required to provide Congress quarterly updates on the costs of Operations Iraqi Freedom and Enduring Freedom.

DoD Requirement

The Department of Defense Financial Management Regulation requires applicable DoD Components to submit data for the cost of war report on a monthly basis to the Defense Finance and Accounting Service-Indianapolis (DFAS-IN).³ DFAS-IN receives the data from 25 DoD Components, and consolidates it into the cost of war report. After the USD(C)/CFO approves and authorizes the release of the cost of war report, DFAS-IN provides the cost of war report to Congress; GAO; the Office of Management and Budget; the DoD Components; and the Offices of the Under Secretary of Defense for Policy, the USD(C)/CFO, the Under Secretary of Defense for Personnel and Readiness, and the Joint Staff. Appendix C provides a list of the 25 DoD Components that submit data for the consolidated cost of war report.

Systemic Weakness Identified in Prior GAO Coverage

GAO has conducted multiple reviews that examined DoD’s reporting of costs for GWOT and made numerous recommendations to improve the reliability of the cost data that DoD is reporting. GAO found that among the problems affecting the reliability of the report were the persistent deficiencies in DoD’s financial systems and the lack of systematic procedures to ensure that data were correctly entered into those systems. GAO acknowledged in its reports that DoD was taking steps to improve its cost reporting. Because GAO determined that it was not possible to examine all reported costs and had identified that significant data reliability issues existed, the extent to which total costs were misstated was not able to be determined.

² The audit team used the September 2005 version of the Regulation. The September 2007 version contained the same criteria that we used with the exception of additional guidance concerning variance analysis procedures. That additional guidance did not affect the results of our audit.

³ Before October 2006, the Defense Finance and Accounting Service-Denver received the monthly data and prepared the cost of war report.

Review of Internal Controls

We identified a material internal control weakness regarding the oversight of the cost of war report as defined by DoD Instruction 5010.40, “Managers’ Internal Control (MIC) Program Procedures,” January 4, 2006. Although the internal controls outlined in Office of Management and Budget Circular A-123, “Management’s Responsibility for Internal Control,” December 21, 2004, and DoD Regulation 7000.14-R, “Department of Defense Financial Management Regulation,” were adequate for preparing the cost of war report, the USD(C)/CFO did not ensure that the DoD Components adhered to those internal controls. A copy of this report will be provided to the senior official responsible for internal controls in the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer. See the finding for further details on the material internal control weakness.

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Finding. Oversight Over the Preparation of the DoD Supplemental and Cost of War Execution Report

The USD(C)/CFO needs to improve its controls over the DoD Components' cost of war reporting processes to provide reasonable assurance regarding the reliability of obligation information reported in the "Department of Defense (DoD) Supplemental and Cost of War Execution Report" (the cost of war report) for procurement and RDT&E. The controls need improvement because the USD(C)/CFO did not:

- ensure that the DoD Components and subordinate reporting entities developed and issued standard operating procedures (SOP) or other supplemental guidance to reporting offices on contingency cost reporting, as specified in the Department of Defense Financial Management Regulation;
- ensure that the DoD Components and subordinate reporting entities verified reported cost data by obtaining and reviewing supporting documentation to ensure that the data were accurate, complete, supportable, and properly affirmed before submission to DFAS-IN for compilation into the cost of war report; and
- ensure that DoD Components submitted affirmation statements to DFAS-IN along with the monthly cost statements and associated analysis.

As a result, report users, such as Congress, cannot be assured that the report accurately portrays a detailed accounting of obligations of appropriations provided for the continuation of the GWOT. During the audit, the Office of the USD(C)/CFO began to establish SOPs for the cost of war reporting process and DFAS-IN established a performance measure to track and report the DoD Components compliance with existing policy.

Cost of War Reporting Procedures and Requirements

Role of USD(C)/CFO in Report Compilation

DoD compiles and reports obligations incurred to support GWOT in monthly supplemental and cost of war reports. Initial GWOT cost of war reports were generated by Defense Finance and Accounting Service (DFAS)-Denver beginning in FY 2002. In September 2005, the USD(C)/CFO directed DFAS to establish a capability to support the USD(C)/CFO in Department-wide reporting and analysis requirements, such as the cost of war report. On October 1, 2006, DFAS reorganized to establish the Standards and Compliance Directorate under the Deputy for Operations, DFAS-IN.⁴ Since FY 2006, the Standards and Compliance Directorate has been responsible for preparing monthly reports on contingency operations, including GWOT, and for reviewing and consolidating explanations of variances in obligation amounts from prior months.

⁴ DFAS-Denver was responsible for preparing the cost of war report prior to October 2006.

Data Compilation Process for the Cost of War Report

DFAS-Denver compiled the original GWOT cost of war reports from a variety of non-standardized sources provided by the DoD Components. In an effort to improve the reporting process, DFAS-IN developed a standard electronic template for obtaining obligation and disbursement data for the cost of war report. The DoD Components prepare and submit their cost of war data to DFAS-IN through monthly submissions of the template. DFAS-IN also established an edit and review process that includes a check to ensure that all cells in the template are properly populated and that descriptions are provided for any newly created data. DFAS-IN also compares the amounts reported for the period against those from the prior period to ensure consistency. If discrepancies in the cost of war report data are identified, DFAS-IN works with the DoD Components to revise the data as necessary.

Once all of the data is reviewed and standardized, the DoD Business Transformation Agency uploads the cost of war report data and generates the report. DFAS-IN, after receiving the cost of war report from the Business Transformation Agency, then compares the official printed version of the cost of war report with one that they create using the original DoD Components' submissions. If corrections to the report are not required, DFAS-IN assembles the cost of war package, to include available affirmation statements and footnotes from the DoD Components. DFAS-IN then transmits the final cost of war report to the Office of the USD(C)/CFO. After that office reviews and authorizes the release of the cost of war report, DFAS-IN releases the report. Appendix F provides a flowchart of the cost of war reporting process.

Cost of War Reporting Guidance

Financial Management Regulation

DoD Regulation 7000.14-R, "Department of Defense Financial Management Regulation," volume 12, chapter 23 establishes policy and procedures for budgeting and reporting for contingency operations. The September 2005 revision to the DoD Financial Management Regulation states that each Component should develop adequate measures for capturing actual costs from the accounting system. When actual costs are not available, DoD Components should establish and document an auditable methodology for capturing costs.

In addition to the requirements for contingency reporting, DoD Regulation 7000.14-R, volume 6A, chapter 2, "Financial Reports Roles and Responsibilities," March 2002, states that the USD(C)/CFO is responsible for the development and approval of DoD policy on financial reports and oversight of the issuance and implementation of such policy.⁵ Further, the Regulation requires DoD Components to establish internal controls to ensure the accuracy, completeness, timeliness, and documentary support for the data generated by them and included in finance and accounting systems or submitted to DFAS for input and recording in finance and accounting systems and financial reports. It also

⁵ DoD Regulation 7000.14-R, volume 6A, chapter 2, was updated in November 2008. The update contained the same requirements as the March 2002 version and did not affect the results of our audit.

requires the Director, DFAS to establish controls and procedures to ensure that the process for preparing financial reports is consistent, timely, auditable, and that controls are in place to provide for the accuracy of the reports.

USD(C)/CFO personnel stated that they did not consider the cost of war report a financial report as defined by the DoD Regulation and therefore stated that the cost of war report was not subject to the requirements outlined in the DoD Financial Management Regulation, volume 6A, chapter 2. Because DoD comptrollers and budget officers use their accounting systems to produce financial information for the cost of war report, they should, as a best business practice, use the internal controls specified in the DoD Financial Management Regulation to ensure that Congress is provided reliable cost information in the cost of war report. Internal controls in the DoD Financial Management Regulation address efficient and effective processes and controls for compiling and reporting financial cost data. Implementation of these financial reporting controls is prudent because the cost of war report is a fundamental tool that Congress uses in the oversight and assessment of DoD requests for additional GWOT funding. The cost of war report assists Congress and DoD managers in planning and budgeting for future costs and in identifying and funding the warfighters' priorities. Implementing the internal controls in the DoD regulation to ensure the accuracy, completeness, timeliness, and documentary support for the cost data will enable DoD to provide lawmakers, decision makers, and the public with sufficiently reliable information to help them make fully informed policy and program decisions.

Affirmation Statement Requirements

The USD(C)/CFO memorandum, "Accuracy of Contingency Operation and Disaster Relief Cost Reports," March 3, 2006, requires DoD Components to attest to the accuracy of monthly cost of war reports and affirm in writing that the report provides a fair representation of ongoing activities. Specifically the affirmation guidance requires an overseeing official at each DoD Component to sign the statement attesting to the accuracy of the submission. The USD(C)/CFO memorandum, "Affirmation Authority for Contingency Operation and Disaster Relief Cost Reports," June 30, 2006, revised the guidance in the March 3, 2006, memorandum. The June 30, 2006, memorandum allows, with restrictions, the DoD Components to delegate the affirmation responsibility below the Assistant Secretaries for Financial Management for the Military Departments and the Comptroller for the Defense agencies. See Appendix D for the March 3, 2006, memorandum and Appendix E for the June 30, 2006, memorandum.

Oversight of DoD Components' Internal Controls for Cost of War Reporting

Audit Verification of DoD Component Reporting of Cost Data

DFAS-IN identified 25 DoD Components that provided cost data for the monthly DoD cost of war reports from July 1, 2006, through June 30, 2007. From that list, as shown in Appendix C, we judgmentally selected for review the Army, Navy, Air Force, and Marine Corps because they represented approximately 99 percent of the procurement and RDT&E funds that DoD reported in the cost of war report for that reporting period. We

also selected for review 10 subordinate reporting entities below the headquarters level. Specifically, we determined whether those DoD Components and select subordinate entities had SOPs for submitting cost of war data to DFAS-IN and whether the cost data submitted to DFAS-IN were verified using supporting documentation. In addition, we determined whether those DoD Components provided affirmation statements with the cost data they reported to DFAS-IN. The USD(C)/CFO does not require the subordinate entities we reviewed to submit affirmation statements. The reporting offices for those subordinate reporting entities are the Assistant Secretaries of the Army, Navy, and Air Force (Financial Management and Comptroller) and the Marine Corps Program and Resources Department, respectively. The following table summarizes the results of our review. Appendix G provides a detailed discussion of those results.

Determination of Whether Organizations Prepared Standard Operating Procedures, Verified Cost Data, and Submitted Affirmation Statements			
<u>DoD Component</u>	<u>Standard Operating Procedures</u>	<u>Verifying Cost Data</u>	<u>Submitted Affirmation Statement</u>
Army Comptroller	Preparing	Partially ¹	No
Appropriation Sponsor for Other Procurement, Army	No	Partially	Not Required
Army Materiel Command	No	Partially	Not Required
Appropriation Sponsor for Weapons and Tracked Combat Vehicles	No	Partially	Not Required
Rapid Equipping Force	No	Partially	Not Required
Appropriation Sponsor for Research, Development, Test, and Evaluation, Army	No	Partially	Not Required
Defense Advanced Research Projects Agency	No ²	No	Not Required
Navy Comptroller	Preparing	Partially	Sometimes
Naval Air Systems Command	No	Partially	Not Required
Naval Sea Systems Command	Preparing	Partially	Not Required
Naval Strategic Systems Programs	No	Partially	Not Required
Air Force Comptroller	Preparing	Partially	Sometimes
Marine Corps Program and Resources Department	Preparing	Partially	No ³
Marine Corps Systems Command	No	Partially	Not Required

¹ Partially means that the DoD Components or executing agencies performed some verification; however, the verification was not conducted using actual supporting documentation but instead using data generated directly from the financial accounting systems or externally generated spreadsheets.

² We limited the applicability of SOPs to organizations that received GWOT supplemental and bridge funding directly and on a continuous basis.

³ The Marine Corps' attestation of its cost of war data is encompassed in the Navy's affirmation letter submission.

Developing and Issuing Standard Operating Procedures

We reviewed the cost of war reporting processes for the Army, Navy, Air Force, Marine Corps and for 10 subordinate entities below the headquarters level. Of the four DoD Components and 10 subordinate entities we reviewed, none had developed or issued SOPs as specified in DoD Financial Regulation 7000.14-R. However, during the audit, the Army, Navy, Air Force, and the Marine Corps began to develop SOPs for their cost of war reporting process. The Regulation states that each DoD Component should develop measures for capturing actual costs, and when actual costs are not available, establish and document an auditable methodology for capturing costs.

During the audit, we determined that each DoD Component and subordinate entity had informal and varied processes and procedures for reporting cost of war data. Instead of relying on SOPs, the DoD Components and subordinate entities primarily used e-mail instructions provided to them with the electronic report template. For an additional explanation of these varying processes, see Appendix G.

Verifying Reported Cost of War Data

In previous reports, GAO identified numerous problems with the processes and procedures DoD uses for reporting cost of war data. These concerns, coupled with the long-standing deficiencies of DoD's financial systems, have called into question the accuracy and the reliability of the cost of war reports. They also strengthen the argument that DoD Components should, at a minimum, validate and verify the accuracy of the cost data reported for GWOT. Although the USD(C)/CFO did not consider the cost of war report a financial report and therefore not subject to the same controls as specified in the DoD Financial Management Regulation, DoD Components, as a best business practice, should adhere to the internal controls in the Regulation to ensure the accuracy and completeness of accounting data included in the cost of war report. Further, the DoD Financial Management Regulation, does state that for contingency reporting, DoD Components must provide documentary support and methodologies for generating cost data not readily available in the accounting systems.

During our audit, we determined that the DoD Components and subordinate entities we reviewed did not verify the accuracy of reported cost of war data against supporting documentation such as contracts awarded or purchase requests. Instead, we found that most of the DoD Components and subordinate entities typically compared reported cost data to the accounting system from which the data were obtained, or to internally generated spreadsheets.

Submitting Affirmation Statements

DoD Components did not always submit affirmation statements attesting to the accuracy of their cost of war reporting, as required by the March 3, 2006, USD(C)/CFO guidance. The memorandum requires the DoD Components to submit affirmation

statements to DFAS-IN with their monthly cost of war submissions. It also requires DFAS-IN to include the affirmation statements in its monthly cost of war reports.

- The Offices of the Assistant Secretary of the Army and the Marine Corps Program and Resources Department did not submit any affirmation statements,
- the Office of the Assistant Secretary of the Navy submitted four affirmation statements, and
- the Office of the Assistant Secretary of the Air Force submitted one affirmation statement.

We reviewed cost of war reports and corresponding affirmation statement submissions from July 1, 2006, through June 30, 2007. The Offices of the Assistant Secretaries of the Army, Navy, and Air Force (Financial Management and Comptroller) and the Marine Corps Program and Resources Department reported \$31.2 billion in GWOT supplemental funding for procurement and RDT&E for the 12-month period that required, in total, 48 affirmation statements from the 4 DoD Components reviewed. Based on documentation obtained from DFAS-IN for the period, only 5 of those 48 statements were submitted for the period.

The team followed up with a DFAS-IN representative to confirm our results. The representative stated that the affirmation statements included in the final cost of war report submission for the scope of the audit were provided for our review. If the DoD Components submitted affirmation statements after the due date, DFAS-IN did not include them in the cost of war report, and therefore the affirmation statements were excluded from our review. However, we did note that during the 12-month period from July 1, 2006, to June 30, 2007, the Navy and the Air Force Comptroller did submit some affirmation statements after the due date DFAS-IN required. As a consequence, those statements were not included in the DoD's final cost of war report submissions and were not included in our review. A representative from the USD(C)/CFO stated that the Navy affirmation statements also attest for the submission of the Marine Corps.

Effect on DoD Components' Compliance With Internal Control Requirements

The control environment is a key component in mitigating risk of financial reporting errors. For the USD(C)/CFO to have a strong control environment, standard policies and procedures must be developed, well-communicated, understood, and followed. Without these controls in place, management will not, for example, be able to assert that:

- all reported transactions actually occurred during the reporting period,
- all transactions that should have been reported were included and no unauthorized transactions were included, and
- internal control and source documentation were readily available for examination.

Without further improvements of the internal controls over the DoD Components' cost of war reporting processes to include the implementation of best business practices for financial reporting as specified in the DoD Financial Management Regulation, the USD(C)/CFO cannot ensure that cost of war data provided to Congress are accurate, complete, and supported. Further, report users and decision makers, like Congress, cannot be assured that the report accurately reflects the use of procurement and RDT&E supplemental appropriations provided for the continuation of GWOT. As a result, the USD(C)/CFO needs to continue its work to enhance the controls over the financial reporting process for cost of war data. Specifically, the USD(C)/CFO should:

- verify that the DoD Components and subordinate reporting entities have developed and issued SOPs or other supplemental guidance and have included in those a requirement to include affirmation statements with their cost of war data;
- require the DoD Components and subordinate reporting entities to verify that their cost data are accurate, complete, supportable, and properly affirmed by obtaining and reviewing supporting documentation submitted by reporting offices before submission to DFAS-IN for compilation into the "Supplemental and Cost of War Execution Report"; and
- require DFAS-IN to ensure the submission of affirmation statements that accompany the monthly cost statements and associated analysis submitted by the DoD Components.

By taking the above action, the USD(C)/CFO can further improve the reliability of the information and cost data included in the report and strengthen its credibility with Congress and the public.

Actions Taken to Improve Cost of War Reporting

Process Improvements

On March 7, 2007, the Principal Deputy Under Secretary of Defense (Comptroller), established the GWOT Cost of War Reporting Project Management Office as an initiative to improve the GWOT reporting process. Specifically, the project management office is responsible for producing high-level SOP guidance for funds distribution, execution, and reporting. Some project management office initiatives include:

- standardizing business processes,
- managing information,
- ensuring that the report information is supported and can be audited,
- providing analysis of war costs and execution,
- providing timely data to decision makers,

- streamlining data collection processes, and
- validating the methods used for allocating cost.

More specifically, the project management office is working to develop an SOP template for contingency operations to assist the DoD Components with preparing SOPs for cost of war reporting. The project management office is also working to create a standardized execution and fund distribution template that the DoD Components can populate with data for the cost of war. Additionally, the project management office, to improve the accuracy, reliability, timeliness, and transparency of GWOT cost of war reporting, is developing a new automated system for collecting, validating, and reporting monthly or quarterly cost of war financial data that is scheduled to be deployed beginning in FY 2009.

In addition to the work of the project management office, the USD(C)/CFO continues to establish controls to enforce the requirement that DoD Components submit affirmation statements with the monthly cost of war data and associated analysis. On October 29, 2007, the USD(C)/CFO issued additional guidance related to the affirmation of the accuracy of monthly reports and review of variance analysis. Further, during our audit, the Assistant Secretaries of the Army, Navy, and Air Force (Financial Management and Comptroller) and the Marine Corps Program and Resources Department began preparing SOPs and coordinating those efforts with DFAS-IN. In addition, the DoD Components, while developing their SOPs, plan to include guidance regarding affirmation statement submissions. The DoD Components also plan to include in the guidance an affirmation checklist that they must follow and submit along with the affirmation statements in order to ensure completeness of the cost of war report data. Lastly, during the audit, DFAS-IN established a cost of war reporting performance measure to track, measure, and report the DoD Components' compliance with existing policy.

Management Comments on the Finding and Our Response

Summaries of management comments of the finding and appendices of this report and our responses are in Appendix H.

Recommendations, Management Comments, and Our Response

We recommend that the Under Secretary of Defense (Comptroller)/DoD Chief Financial Officer:

1. Verify that the DoD Components and subordinate reporting entities have developed and issued standard operating procedures and ensure that the standard operating procedures reiterate the requirement to include affirmation statements with their cost of war data for the “Supplemental and Cost of War Execution Report,” in accordance with DoD Regulation 7000.14-R, “Department of Defense Financial Management Regulation,” volume 12, “Special Accounts, Funds and Programs,” chapter 23, “Contingency Operations,” September 2007.

2. Require the DoD Components and subordinate reporting entities to verify that their cost data are accurate, complete, supportable, and properly affirmed by obtaining and reviewing supporting documentation submitted by reporting offices before submission to the Defense Finance and Accounting Service-Indianapolis for compilation into the “Supplemental and Cost of War Execution Report,” in accordance with DoD Regulation 7000.14-R, “Department of Defense Financial Management Regulation,” volume 6A, “Reporting Policies and Procedures,” chapter 2, “Financial Reports Roles and Responsibilities,” March 2002.

3. Require the Defense Finance and Accounting Service-Indianapolis to ensure the submission of affirmation statements that accompany the monthly cost statements and associated analysis submitted by the DoD Components.

Office of the Under Secretary of Defense (Comptroller)

Comments

The Acting Deputy Chief Financial Officer agreed with the recommendations of this report and provided additional comments on the report finding. In response to Recommendation 1, he stated that, since the establishment of the Global War on Terror Project Management Office and the Global War on Terror Senior Steering Group, DoD has made numerous improvements in the GWOT cost reporting processes. Specifically, he stated that the GWOT Project Management Office has assisted the Components in preparing SOPs by outlining the data collection process and by outlining the requirements for calculating variances, composing footnotes, and preparing affirmation statements. Subsequently, the Acting Deputy Chief Financial Officer, in an October 31, 2008, memorandum, required the Components to develop specific guidance and procedures and to finalize those by February 25, 2009. In response to Recommendation 2, the Principal Deputy Under Secretary of Defense (Comptroller) stated that, in a February 2008 memorandum, he directed the Components to review the accuracy of costs and provided procedures for validating the accuracy of the obligations. Finally, to address Recommendation 3 regarding the submission of affirmation statements and footnotes, and the timeliness of those, the Acting Deputy Chief Financial Officer stated that DFAS established a process for tracking missing affirmation statements and footnote information. The procedures include identifying missing information to the USD(C)/CFO. In addition, the GWOT Senior Steering Group is briefed quarterly on the timeliness of the submission of affirmation statements and footnotes, and on Components with outstanding affirmation statements. Further, he stated that DFAS follows up on missing Component information until it is received.

Our Response

The comments of the Acting Deputy Chief Financial Officer were responsive.

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Appendix A. Scope and Methodology

We conducted this audit from May 2007 through August 2008, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives.

Documentation and Information Reviewed

To accomplish the audit objectives, we reviewed the following documentation and information dated from March 2002 through November 2007.

- “Department of Defense (DoD) Supplemental and Cost of War Execution Reports” that the Defense Finance and Accounting Service issued for the 12-month period from July 2006 through June 2007; draft SOPs prepared by the Army, Navy, Air Force, and Marine Corps Components; and cost of war templates submitted by those Components.
- Cost of war reporting requirements in Conference Report 109-359, “Making Appropriations for the Department of Defense for the Fiscal Year Ending September 30, 2006, and for Other Purposes,” December 18, 2005; and Public Law 109-163, “National Defense Authorization Act for Fiscal Year 2006,” January 6, 2006.
- Key policies and principles that govern the cost of war reporting process. The mandatory policies and management principles reviewed were Office of Management and Budget Circular A-123, “Management’s Responsibility for Internal Control,” December 21, 2004; DoD Regulation 7000.14-R, “Department of Defense Financial Management Regulation,” September 2005; and Under Secretary of Defense (Comptroller) memorandums, “Accuracy of Contingency Operation and Disaster Relief Cost Reports,” March 3, 2006, and “Affirmation Authority for Contingency Operation and Disaster Relief Cost Reports,” June 30, 2006.
- Deloitte and Touche final report, “Assessment of Department of Defense Financial Reporting on the Cost of the Global War on Terror,” for the Defense Finance and Accounting Service issued on September 30, 2007, that discussed the funds distribution process from apportionment to allotment for the Office of the Under Secretary of Defense (Comptroller), Army, Navy, Air Force, and Marine Corps Components; documented the application of funds methodology, processes, and data structures to include application, allocation, distributions, cost transfers, and expenditures for the Army, Navy, Air Force, and Marine Corps Components;

and provided a comparative analysis among the Components based on the processes and data structures resulting from the first two tasks.

Staff Contacted

We also contacted the staffs of the Offices of the Under Secretary of Defense (Comptroller); the Defense Finance and Accounting Service, Denver; the Defense Finance and Accounting Service, Indianapolis; the Army Materiel Command (AMC); the Assistant Secretary of the Army (Financial Management and Comptroller); the Army Rapid Equipping Force; the Assistant Secretary of the Navy (Financial Management and Comptroller); the Naval Air Systems Command (NAVAIR); the Naval Sea Systems Command (NAVSEA); the Naval Strategic Systems Programs (SSP); the Assistant Secretary of the Air Force (Financial Management and Comptroller); the Marine Corps Program and Resources Department; the Marine Corps Systems Command; and the Defense Advanced Research Projects Agency (DARPA) to determine whether DoD was accurately and completely reporting obligations of funds provided for procurement and RDT&E in the cost of war reports.

Audit Methodology

The audit team evaluated the internal controls that comptroller personnel had implemented for the cost of war reporting process at each Military Department's headquarters level. Because each Military Department had a unique process for submitting the cost of war data, the audit team evaluated the headquarters-level process and a subordinate organization below the headquarters level. If more than one subordinate organization existed, then the audit team judgmentally chose which subordinate organizations to review. Because the Army and Navy had at least 10 reporting subordinates that received procurement and RDT&E GWOT supplemental funding, the audit team judgmentally selected a large, medium, and small subordinate organization within the Washington, D.C., commuting area for those Components.

The audit team limited its evaluation of the cost of war reporting process to data provided by the Army, Navy, Air Force, and Marine Corps for GWOT supplemental funding for procurement and RDT&E. The audit team did not separately evaluate the quarterly cost of war reporting process because DFAS prepares the quarterly reports using the same obligation and disbursement data that it uses to prepare the monthly reports. In addition, the audit team did not validate the cost of war data because GAO is conducting a series of audits that address the validity of the data.

Use of Computer-Processed Data

We did not use computer-processed data to perform this audit.

Prior Coverage

During the last 5 years, GAO, the DoD Inspector General (IG), and the Air Force Audit Agency have issued 10 reports discussing supplemental funding authorized and obligated for GWOT. Unrestricted GAO reports can be accessed over the Internet at

<http://www.gao.gov>. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/audit/reports>. Unrestricted Air Force reports can be accessed at <http://www.affa.hq.af.mil>.

GAO

GAO Report No. GAO-08-853R, “Global War on Terrorism: Reported Obligations for the Department of Defense,” June 13, 2008

GAO-08-423R Memorandum, “Subject: Global War on Terrorism: Reported Obligations for the Department of Defense,” January 30, 2008

GAO Report No. 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,” November 2007

GAO 07-1056R Memorandum, “Subject: Global War on Terrorism: Reported Obligations for the Department of Defense,” July 26, 2007

GAO 07-783R, Memorandum, “Subject: Global War on Terrorism: Reported Obligations for the Department of Defense,” May 18, 2007

GAO Report No. GAO-07-76, “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,” November 2006

GAO Report No. GAO-06-885T, “Global War on Terrorism: Observations on Funding, Costs, and Future Commitments,” July 18, 2006

GAO Report No. GAO-05-882, “Global War on Terrorism: DoD Needs to Improve the Reliability of Cost Data and Provide Additional Guidance to Control Costs,” September 2005

DoD IG

DoD IG Report No. D-2008-027, “Air Force Use of Global War on Terrorism Supplemental Funding Provided for Procurement and Research, Development, Test, and Evaluation,” November 21, 2007

Air Force

Air Force Audit Agency Report No. F2005-0011-FB1000, “Global War on Terrorism Funds Management,” June 20, 2005

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Appendix B. Glossary

Affirm. Affirm is to assert (as a judgment or decree) that information is valid or confirmed.

Appropriation. An appropriation is an authorization enacted by Congress that permits Federal agencies to incur obligations and make payments from the Treasury.

Bridge Appropriations. Bridge appropriations are emergency supplemental appropriations that are added to regular annual appropriation bills to pay a portion of the incremental funds needed for ongoing emergency operations. Generally, Congress includes bridge appropriations in a separate title of the appropriation, usually under Title IX of the United States Code.

Budget Authority. Budget authority is enacted through congressional legislation and allows DoD to enter into obligations that will result in immediate or future outlays. It may be classified by the period of availability, by the timing of congressional action, or by the manner of determining the amount available.

Commitment. A commitment is an administrative reservation of funds by the comptroller in anticipation of an obligation.

Contingency Operation. A contingency operation is a military operation that is designated by the Secretary of Defense as an operation in which members of the Armed Forces are or may become involved in military actions, operations, or hostilities against an enemy of the United States or against an opposing military force. A contingency operation is also considered a call or order to, or retention of, active duty of members of the uniformed services during a war or during a national emergency declared by the President or Congress.

Disbursement. A disbursement can be either a gross or net disbursement. Gross disbursements represent the amount of checks issued, cash, or other payments less refunds received. Net disbursements represent gross disbursements less income collected and credited to the appropriation of fund account, such as amounts received for goods and services provided.

Obligation. An obligation is a duty to make a future payment of money. The duty is incurred as soon as an order is placed or a contract is awarded for the delivery of goods or the performance of services, or both.

Operation Enduring Freedom. Operation Enduring Freedom is continuing the United States' efforts to track down terrorists and provide stability, primarily in Afghanistan, but also includes operations in support of the Republic of the Philippines. The military objectives of Operation Enduring Freedom include denying terrorist organizations access to training camps and infrastructure, capturing Al Qaeda leaders and fighters, stopping

terrorist activities against the United States and its allies, and preventing the reemergence of international terrorist organizations. In Afghanistan, the objectives include destroying the remaining Taliban and Al Qaeda organizations, training the Afghan National Army, conducting civil-military operations, and providing support for the emerging government of Afghanistan. The United States continues to hold terrorist detainees at the Guantanamo Bay facility in Cuba in order to obtain tactical intelligence on current and future terrorists operations.

Operation Iraqi Freedom. Operation Iraqi Freedom is continuing efforts to stabilize Iraq, conduct stability and support operations throughout Iraq, capture Hussein regime loyalists, and stop terrorists from using Iraq as a staging area for terrorism activities.

Operation Noble Eagle. Operation Noble Eagle is continuing efforts to defend the United States from airborne attacks and maintaining United States air sovereignty.

Procurement Appropriations. Procurement appropriations fund those acquisition programs that have been approved for production, including low-rate initial production of acquisition objective quantities, and all costs integral and necessary to deliver a useful end item intended for operational use or inventory upon delivery.

Research, Development, Test, and Evaluation Appropriations. Research, development, test, and evaluation appropriations fund the efforts performed by contractors and Government entities required for the research and development of equipment, material, or computer application software, and associated test and evaluation.

Supplemental Appropriations. Supplemental appropriations are enacted by Congress as an addition to DoD's regular annual appropriation. Supplemental appropriations provide additional budget authority beyond original estimates for programs or activities that are too urgent to be postponed until the next regular annual appropriation.

Title IX Appropriations. Title IX appropriations are usually bridge appropriations. See definition for bridge appropriations.

Appendix C. DoD Components Providing Cost Data for the Cost of War Report

The following is a list of the 25 DoD Components that provide cost data for the DoD supplemental and cost of war execution reports:

American Forces Information Service	Defense Security Service
Air Force	Defense Threat Reduction Agency
Army	DoD Education Activity
Counterintelligence Field Activity	DoD Inspector General
Defense Contract Audit Agency	Joint Chiefs of Staff
Defense Contract Management Agency	Marine Corps
Defense Health Program	Navy
Defense Human Resources Agency	National Security Agency
Defense Information Systems Agency	Office of the Secretary of Defense
Defense Intelligence Agency	Office of the Under Secretary of Defense (Comptroller)
Defense Legal Services Agency	Special Operations Command
Defense Logistics Agency	Washington Headquarters Service
Defense Security Cooperation Agency	

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Appendix D. Under Secretary of Defense (Comptroller) Memorandum Concerning Cost Report Accuracy



COMPTROLLER

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

MAR 3 2006

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
CHAIRMAN OF THE JOINT CHIEFS OF STAFF
COMMANDERS OF THE COMBATANT COMMANDS
DIRECTORS OF THE DEFENSE AGENCIES
DIRECTORS OF THE DOD FIELD ACTIVITIES

SUBJECT: Accuracy of Contingency Operation and Disaster Relief Cost Reports

Accurate financial data is essential to the effective management of funds entrusted to the Department of Defense (DoD). It is the responsibility of all engaged in the contingency operations reporting process, such as the Global War on Terror (GWOT) and disaster relief like Hurricanes Katrina and Rita, to ensure compliance with prescribed guidelines, thereby making certain that costs reported are indeed accurate.

In support of the current guidance, each submitting DoD Component is now required to attest to the accuracy of the monthly cost reports and affirm that the report provides a fair representation of ongoing activities related to those operations. Your affirmation (see attached) must accompany the monthly cost statements and associated analysis provided to the Defense Finance and Accounting Service (DFAS) and will be included in the monthly DoD Supplemental and Cost of War Execution reports issued by DFAS. The authority level for affirmation is the Comptroller/Financial Manager. If it is necessary to delegate, the authority may be delegated no lower than the level of the Assistant Secretaries for Financial Management for the Services or to the Comptroller for Defense Agencies.

This guidance is effective immediately. Your continued attention to improving financial management is appreciated.

My staff point of contact for this matter is Ms. Joy Marcou. She can be reached at (703) 697-3135 or joy.marcou@osd.mil.

Tina W. Jonas

Attachment:
As stated

Date

I affirm the (month/year) cost data being submitted by (Component/Agency Name) is a fair representation of our on-going activities related to the Global War on Terror (GWOT), Contingency Operations (ConOps) and Disaster Relief Efforts. Analysis is included to assist in interpretation of the costs presented and the methodologies used to gather data not readily available within our accounting systems.

Signature

Printed Name & Title

Attachment

Appendix E. Under Secretary of Defense (Comptroller) Memorandum Concerning Affirmation Authority



COMPTROLLER

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

JUN 30 2006

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
CHAIRMAN OF THE JOINT CHIEFS OF STAFF
COMMANDERS OF THE COMBATANT COMMANDS
DIRECTORS OF THE DEFENSE AGENCIES
DIRECTORS OF THE DOD FIELD ACTIVITIES

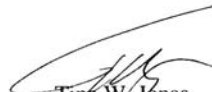
SUBJECT: Affirmation Authority for Contingency Operation and Disaster Relief Cost
Reports

This memorandum revises the Under Secretary of Defense (Comptroller)
memorandum, Accuracy of Contingency Operations and Disaster Relief Cost Reports,
dated March 3, 2006.

The Military Service Assistant Secretary for Financial Management &
Comptroller (FM&C) is required to provide the affirmation, but may delegate this
responsibility to the Deputy Assistant Secretary or Director for Budget. The
Commander/Director is required to provide the affirmation for Combatant Commands,
Defense Agencies, or Defense Field Activities. For these Components, the authority may
be delegated to the Comptroller/Business Office, whichever holds higher authority,
provided the Comptroller/Business Office position is a flag officer or member of the
Senior Executive Service.

Components must notify my office of any delegation of affirmation responsibility.
An electronic copy of the delegation memorandum should be provided to my point of
contact at the email address below.

This guidance is effective immediately. My staff point of contact for this matter is
Ms. Joy Marcou. Please direct any questions to Ms. Marcou at (703) 697-3135 or email
joy.marcou@osd.mil.


Tina W. Jonas

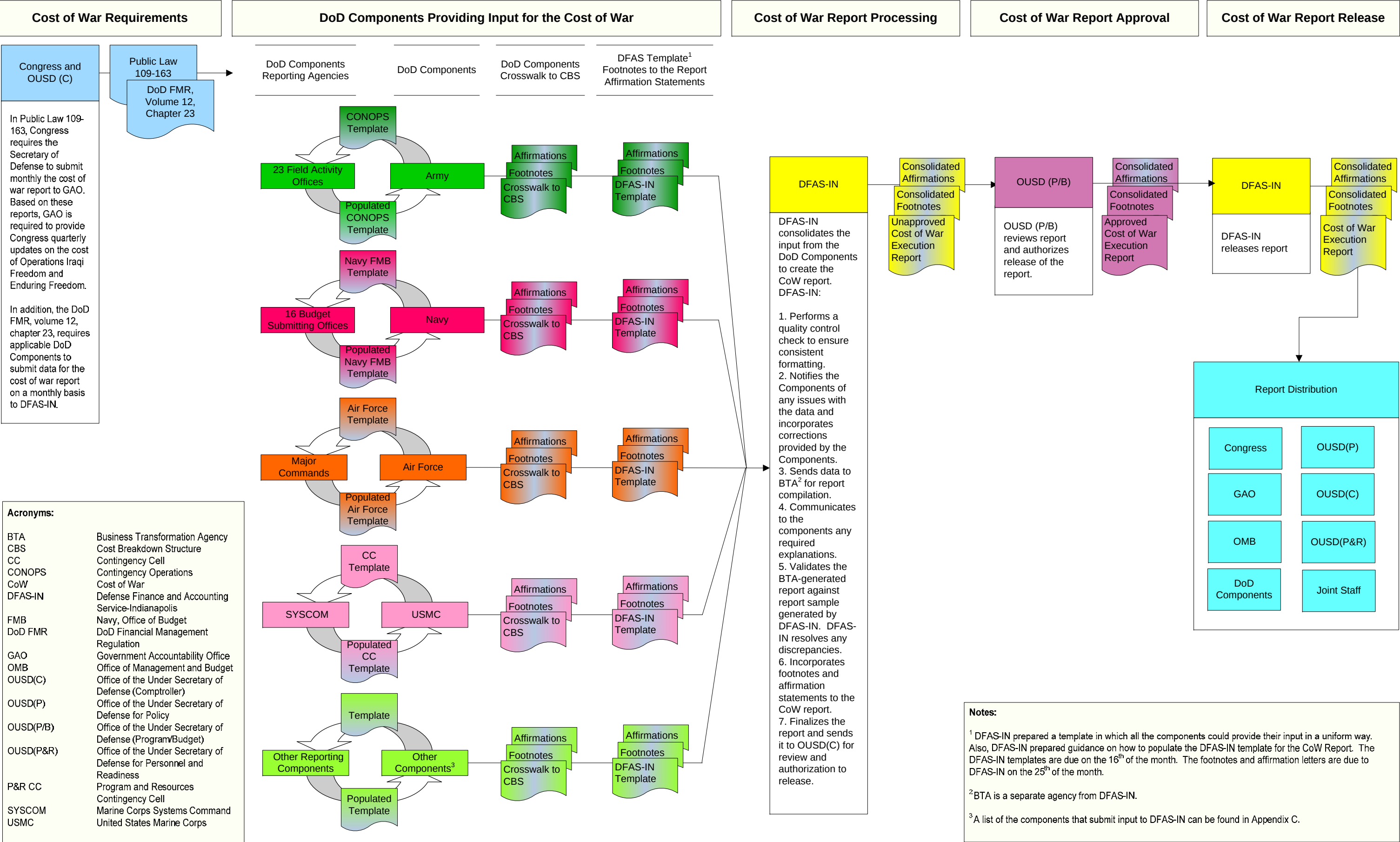
Appendix F. Cost of War Reporting Process

The following figure illustrates the DoD supplemental and cost of war execution reporting process. The chart was compiled based on meetings with representatives from the Defense Finance and Accounting Service.

The DoD Components, which are listed in Appendix C, prepare and submit their cost of war data to the Defense Finance and Accounting Service-Indianapolis (DFAS-IN) through monthly submissions of a DFAS template. After DFAS-IN receives the data, it reviews the data to ensure that all cells in the template are properly populated. DFAS-IN also reviews the data to ensure a consistency in the cost of war report format by validating that the Components reported the correct period and reported costs in the correct units.

Once all of the data is standardized, DFAS-IN contacts the Business Transformation Agency to generate the report. After receiving the cost of war report from the Business Transformation Agency, DFAS-IN performs yet another review of the data against mock reports it constructs using the Components' original cost submissions. If DFAS-IN does not have any issues with the report, it assembles the cost of war package, including available affirmation statements and footnotes, and transmits this package via e-mail to the Office of the Under Secretary of Defense (Program/Budget). Once the Office of the Under Secretary of Defense (Program/Budget) authorizes the release of the cost of war report, DFAS-IN releases the report.

Cost of War Execution Reporting Process



KEY

-  Reporting phase
-  Senate and House of Representatives of United States of America in Congress (Congress) and Office of the Under Secretary of Defense (Comptroller)
-  Office of the Assistant Secretary of the Army (Financial Management and Comptroller)
-  Office of the Assistant Secretary of the Navy (Financial Management and Comptroller)
-  Office of the Assistant Secretary of the Air Force (Financial Management and Comptroller)
-  Office of the Marine Corps Program and Resources Department
-  Other Reporting Components
-  Defense Finance and Accounting Service-Indianapolis
-  Office of the Under Secretary of Defense (Program/Budget)
-  Offices that receive the Cost of War Execution Report
-  Actions taken by responsible office
-  Document flow

Appendix G. Implementation of Standard Operating Procedures, Verification, and Affirmation of Cost of War Data Submitted by DoD Components and Subordinate Entities Reviewed

The following summarizes the Army, Navy, Air Force, and Marine Corps and selected subordinate entities processes and procedures for preparing the cost of war report for procurement and RDT&E supplemental and bridge appropriations. Also included is discussion about the implementation of standard operating procedures (SOP) with regard to preparing the cost of war report, verification of cost data included in the report, and submission of affirmation statements attesting to the accuracy of the data.

Army Components

Assistant Secretary of the Army (Financial Management and Comptroller)

The Management and Control Directorate within the Army Budget Office, Office of the Assistant Secretary of the Army (Financial Management and Comptroller) is responsible for submitting the cost of war report to DFAS-IN. To do this, the Management and Control Directorate receives cost of war input from the Investment Directorate, consolidates the data into the DFAS report template, and provides the monthly cost of war data to DFAS-IN.

Specifically, the Management and Control Directorate receives a monthly contingency operations (CONOPS) report from the Investment Directorate. The CONOPS report represents a reconciliation of appropriated GWOT supplemental and bridge procurement and RDT&E funds to obligations and disbursements for each fiscal year. The Management and Control Directorate uses the data from the CONOPS report to prepare the investment portion of the monthly cost of war report submission to DFAS-IN.

The Investment Directorate obtains cost of war data from Army investment appropriation sponsors for procurement and RDT&E. Specifically, the Investment Directorate receives cost of war data input from six investment appropriations sponsors. Each appropriation sponsor is responsible for collecting cost of war data from Army field and executing activities, to include program executive offices and Defense operating agencies. After obtaining that data, the Army Budget Officer Staff Coordinator for Investments consolidates all execution updates into a master spreadsheet for that particular month. The staff coordinator reviews the data for accuracy by examining changes from the previous month for each appropriation and program to ensure cumulative obligations and disbursements have increased and have not exceeded funding levels. The staff coordinator then forwards the consolidated CONOPS spreadsheet to the Management and

Control Directorate. Personnel from the Management and Control Directorate consolidate the investment data along with other cost of war appropriations data into the DFAS template and submit the template to DFAS-IN.

During our review, the Army Budget Office was preparing SOPs for providing cost of war data to DFAS-IN. In addition, a representative of the Army Budget Office stated that the Management and Control Directorate verified the format but not the accuracy of the cost of war data provided by subordinate entities.

For the July 1, 2006, through June 30, 2007, reporting period, the Management and Control Directorate did not submit affirmation statements to DFAS-IN. A directorate representative stated that the directorate did not consistently sign and submit affirmation statements with the submission of cost of war data on a monthly basis. Further, the directorate neither required the appropriation sponsors nor the Army field activities to provide an affirmation statement with the cost data that it provided to the directorate.

For the purposes of this review, we selected the following three appropriation sponsors for review: Weapons and Tracked Combat Vehicles; Other Procurement, Army; and Research, Development, Test, and Evaluation, Army. From the list of Army field activities and Defense operating agencies, we judgmentally selected for review one executing activity from each of the three appropriation sponsors. Those executing activities were the Army Materiel Command (AMC), the Army Rapid Equipping Force, and the Defense Advanced Research Projects Agency (DARPA), an organization within the Office of the Secretary of Defense.

Army Appropriation Sponsors

The Appropriation Sponsors for Weapons and Tracked Combat Vehicles; Other Procurement; and Research, Development, Test, and Evaluation receive the CONOPS report template monthly from the Investment Directorate. The appropriation sponsors review the CONOPS information, make adjustments where necessary, and forward the template to each of their respective Army field activities. The field activities extract monthly obligation and disbursement amounts for each program from their accounting systems and enter that information into the template. After review and approval of the data, the field activities submit the completed template back to their appropriation sponsors, who subsequently review the data for any obligations over funding levels, the use of the proper reporting period, and comments. Once reviewed, the appropriation sponsors approve the data and forward it to the Investment Directorate. Although the data are reviewed, the appropriation sponsors do not reconcile the data to supporting documentation from the field activities.

Although the Army Budget Office was preparing SOPs that included general procedures for the appropriation sponsors to follow in their preparation of the cost of war report template, the appropriation sponsors did not have unique procedures to supplement the overarching SOPs. In addition, neither the USD(C)/CFO nor the Army Budget Office required the appropriation sponsors or executing activities to submit affirmation statements with their cost of war submissions.

Army Materiel Command

AMC, a field activity, receives the CONOPS report template monthly by e-mail from the appropriation sponsor for Other Procurement, Army. After receiving the template, a budget analyst at AMC forwards the template to the major subordinate commands that populate the templates with data obtained from the Standard Operation and Maintenance Army Research and Development System, an accounting system, and return the templates along with their remarks to the AMC budget analyst. The AMC budget analyst reconciles the major subordinate commands' data to obligations posted in their resource management system and reviews the remarks. Upon review, the AMC budget analyst consolidates the templates into one template for the command and submits the final template to the appropriation sponsor. At the time the team met with AMC representatives, they stated that AMC had not established SOPs to document its process for populating and submitting data in the CONOPS report template. In follow up, AMC representatives stated that the process will be included and documented in their division SOPs. AMC was not required to submit affirmation statements with its CONOPS report submissions to the appropriation sponsor.

Army Rapid Equipping Force

The Army Rapid Equipping Force, a field activity, receives the CONOPS report template monthly by e-mail from the appropriation sponsor for Weapons and Tracked Combat Vehicles. After receiving the template, a budget analyst populates the obligation and disbursement fields by using an internal ledger system to identify applicable obligation documents in the accounting system that were approved during the reporting period. Because the accounting system was not designed to view disbursement data, an assistant analyst must contact the Army Resource Management Office to obtain that data. Once the disbursement data are provided, the budget analyst inputs them into the CONOPS template and validates the data by comparing the total obligations to those in the internal ledger and accounting system. In addition, the budget analyst ensures that the revised amounts column and the total amount column in the CONOPS template are equal. If the two are not equal, an explanation is provided in the remarks section of the template. The Rapid Equipping Force did not establish SOPs for its reporting process, stating that it considered the e-mail guidance it was provided along with the CONOPS template sufficient. In addition, the Rapid Equipping Force was not required to provide affirmation statements to the appropriation sponsor with its submission of the CONOPS report template.

Defense Advanced Research Projects Agency

In June 2007, DARPA received GWOT supplemental RDT&E funding from the Army. Because DARPA received GWOT funding, the Army Budget Office provided DARPA, by e-mail, the CONOPS report template that was to be used for recording obligation and disbursement data for cost of war reporting purposes. According to DARPA officials, DARPA was not aware of the reporting requirement and consequently did not populate or submit the CONOPS template. To obtain DARPA obligation and disbursement data for cost of war reporting purposes, representatives from the Army Budget Office stated that they instead worked through the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) and their counterparts at DARPA to obtain obligation and disbursement

data. DARPA representatives further stated that because they do not regularly receive GWOT supplemental funding, they did not have SOPs nor were they required to complete affirmation statements attesting to the accuracy of the reported costs.

Navy Components

Assistant Secretary of the Navy (Financial Management and Comptroller)

The Office of Budget within the Office of the Assistant Secretary of the Navy (Financial Management and Comptroller), which is also referred to as Financial Management Budget (FMB), is responsible for the cost of war data submission to DFAS-IN. To prepare the submission, FMB obtains input for the cost of war report from 16 Navy budget submission offices using a template that FMB developed specifically to capture cost of war data. Monthly, the budget submission offices complete the template and forward it to FMB. The budget submission offices report obligations and disbursements from their accounting systems for GWOT procurement and RDT&E supplemental funds provided to their respective commands. The offices are responsible for the accuracy of the information they submit to FMB. Along with the cost of war templates, FMB also requires the budget submission offices to provide monthly affirmation statements attesting to the accuracy of their input. After the budget submission offices provide their input, FMB consolidates the cost data from each of the budget submission offices and consolidates the data into the DFAS-IN cost of war report template.

To verify the cost of war data reported in the DFAS-IN template, an FMB analyst compares the data from the budget submission offices with their annual spending plan. If discrepancies are identified, the analyst addresses those with the appropriate budget submission office and requests explanations as required. FMB submits the cost of war template to DFAS-IN along with a completed affirmation statement. DFAS-IN provided the affirmation statements that accompanied the cost of war reports for the period July 1, 2006, through June 30, 2007. Based on the documentation we reviewed, FMB provided only four affirmation statements to DFAS-IN. A representative from DFAS-IN clarified that affirmation statements provided by the DoD Components after the due date were not included in the cost of war report. In a later follow up, an FMB representative stated that they submitted to DFAS-IN 11 of the 12 statements required, missing only November; and provided to us 10 of those affirmation statements. The team compared both affirmation statements provided by Navy FMB and DFAS-IN and determined that FMB submitted 10 of the 12 affirmation statements within July 2006 to June 2007; however, seven of them were submitted late. As a result, they were not included in the cost of war report. Further, an FMB representative stated that although the Navy had not established SOPs for its cost of war reporting process, FMB was working with DFAS-IN to do so. From the 16 budget submission offices that report cost of war data to FMB, we judgmentally selected for review a large, medium, and small office based on funding and location. Those budget submitting offices were the Naval Air Systems Command (NAVAIR), the Naval Sea Systems Command (NAVSEA), and the Naval Strategic Systems Programs (SSP) office.

Naval Air Systems Command

NAVAIR uses cost data from its accounting system to populate the FMB template. NAVAIR representatives stated that beginning with FY 2006 funds and without direction from FMB, NAVAIR management decided to use codes to track the different types of funding in its accounting system. Specifically, NAVAIR established functional area codes in its accounting system to differentiate among annual, supplemental, and bridge funds. NAVAIR financial analysts assign and record functional area codes on accounting documents and in the accounting system as the funds are executed. Using those codes, NAVAIR personnel obtain monthly obligation and disbursement data specifically related to the cost of war from the accounting system and populate the FMB template. NAVAIR representatives stated that additional verification of the cost data is not done. Rather, they rely on data provided in the accounting system and the controls that are in place to verify the accuracy of the data as funds are executed. Based on the USD(C)/CFO memorandum, "Accuracy of Contingency Operation and Disaster Relief Cost Reports," March 3, 2006, NAVAIR was not required to submit affirmation statements along with its cost of war submission. Also, it did not have documented SOPs outlining its processes and procedures for compiling and submitting the cost of war data to FMB.

Naval Sea Systems Command

FMB provides NAVSEA with a cost of war template to populate and submit monthly. At the end of each month, a NAVSEA financial analyst requests that the program offices download an updated version of the template from the NAVSEA Business Financial Managers and Comptrollers Competency Web site. The program offices are asked to update the template and save it to the Web site. In addition to completing the cost of war report template, the program offices are required to submit a back-up spreadsheet as an audit trail to support the reported costs. Each spreadsheet provides by project a brief description of the project, a budget line and project unit, document number, current funding amounts, and the end of year costs. NAVSEA requires affirmation statements to ensure that the submitting program offices comply with prescribed guidance and that reported costs are accurate. After populating the cost of war report template, the program offices inform NAVSEA that the template is complete and electronically submit the cost data along with the back-up spreadsheet and affirmation statement. The NAVSEA financial analyst then consolidates the data into an overall FMB cost of war report template. During that process, the financial analyst determines whether the cost data are accurate by reconciling the program office data to the data recorded in the NAVSEA accounting system and to the information provided in the back-up spreadsheets. If the analyst identifies discrepancies, the analyst will work with the program office to reconcile the discrepancy. After verifying the cost of war data, the NAVSEA Comptroller:

- reviews a summary of the cost of war data by contingency, month, total, and projected end of year amount;
- reviews the program office back-up spreadsheets and affirmation statements; and
- signs a NAVSEA affirmation statement.

Once complete, the NAVSEA financial analyst submits the cost of war template and affirmation statement electronically to FMB.

As of September 2007, NAVSEA no longer required that program offices submit the back-up spreadsheets to support their cost of war data submissions. NAVSEA representatives stated that they rely on the cost data generated by the accounting system to serve as their support for the submission.

Naval Strategic Systems Programs

The Naval SSP representative explained that Navy FMB declared a portion of the annual funds in the SSP Physical Security Equipment budget line as GWOT supplemental funds. Navy FMB accordingly provided SSP with the monthly cost of war data template to report the status of its use of these supplemental funds. Since SSP did not receive guidance from Navy FMB to separately code or differentiate the funds that were deemed supplemental, SSP financial analysts did not separately track the funds in the accounting system. Consequently, SSP populated the cost of war data template with the total obligations using both annual and supplemental funding. When SSP submitted the template to FMB, SSP noted that the amount reported contained annual appropriations. SSP financial analysts verified the reported cost data information to the accounting system but did not have an SOP that outlined the processes and procedures for reporting cost of war data. SSP followed the same SOPs that it used for preparing reports on its use of annual appropriations and although not required, SSP representatives stated that they submitted the monthly template and also provided an affirmation statement.

Air Force Components

Assistant Secretary of the Air Force (Financial Management and Comptroller)

On April 3, 2007, the Director, Budget Investment, Office of the Assistant Secretary of the Air Force (Financial Management and Comptroller) (ASAF[FM&C]) issued a memorandum, "Global War on Terrorism Cost of War Reporting," to the financial managers at the Air Force major commands stating that the current cost of war reporting "method cannot guarantee accuracy and cannot be duplicated by external agencies." The memorandum requires each major command that receives supplemental funding to report monthly on GWOT obligations and expenditures at the line item level of detail. The memorandum also reiterates the requirement of Air Force comptrollers and budget officers to apply Emergency and Special Program codes to GWOT supplemental and bridge funding obligations. The Office of the Deputy Assistant Secretary of the Air Force for Financial Management and Comptroller, Directorate of Budget Investment (SAF/FMBI) analysts plan to run a report in the accounting system to validate that all GWOT funding was properly coded in the accounting system and work any discrepancies identified with the major commands to ensure that the discrepancies are corrected before the end of the month. In addition, the memorandum states that the Office of the ASAF(FM&C) is in the process of developing a separate database for recording monthly GWOT obligations and expenditures. The Office of ASAF(FM&C) intends to use the database to produce the monthly cost of war data submission.

In November 2007, during the audit, SAF(FMBI) established SOPs identifying the processes and procedures for cost of war reporting. During the 12-month reporting period ending on June 30, 2007, SAF(FMBI) submitted only one affirmation statement, attesting for the January 2007 cost data, with cost of war of submissions to DFAS-IN. The team made this determination based on the affirmation statements provided by DFAS-IN. A DFAS-IN representative clarified that only affirmation statements submitted before the due date were included in the cost of war report and that affirmation statements received after the due date were not considered part of the cost of war report. An Air Force representative stated that they submitted affirmation statements for the 12-month reporting period ending on June 30, 2007, and acknowledged that DFAS-IN did not include them because the Air Force did not meet the suspense date. The Air Force representative provided the affirmation statements to us and the team verified that for the 12-month period, the Air Force submitted its affirmation statements after the due date.

DoD IG Report No. D-2008-027, “Air Force Use of Global War on Terrorism Supplemental Funding Provided for Procurement and Research, Development, Test, and Evaluation,” November 21, 2007, reported that the Air Force did not always separately identify the type of appropriations, but instead combined GWOT appropriations with annual appropriations in the accounting system. For that reason, SAF/FMBI reported estimated costs. Specifically, Directorate personnel used cost data from the DFAS “Appropriation Status by FY Program and Subaccounts” report to derive the Air Force’s monthly GWOT obligations and disbursements for procurement and RDT&E supplemental and bridge funds. SAF/FMBI analysts stated that they considered as GWOT the first dollars spent up to the total amount of the supplemental and bridge funds allocated. Every dollar spent after that point, the Air Force budget analysts considered to be obligations and expenditures of annual appropriations. Because the Air Force used approximations instead of actual costs, the Air Force budget analysts could not verify the accuracy of the amounts reported to supporting obligation documentation.

Marine Corps Components

Marine Corps Program and Resources Department

The Marine Corps Program and Resources Department (the Department) is responsible to the Commandant of the Marine Corps for Marine Corps financial requirements, policies, and programs. The Department receives monthly cost of war data from the Marine Corps major commands and submits that data to DFAS-IN. By the first of each month, the Contingency Cell within the Department provides the submitting commands a template by e-mail to populate with monthly cost of war obligations and disbursements, which they obtain from the Marine Corps accounting system. After populating the template with cost of war obligations and disbursements, the submitting commands return the completed templates to the Contingency Cell. The Contingency Cell personnel verify the data in the templates by comparing them with that available in the accounting system. If a discrepancy is identified, the Contingency Cell personnel work with the command to reconcile the discrepancy. After verifying the data, Contingency Cell personnel

consolidate the data from the commands into the DFAS cost of war data template, and submit the cost of war template directly to DFAS-IN. A courtesy copy of the cost of war template is provided to the Navy.

For the 12-month period ending June 30, 2007, the Department did not submit affirmation statements to DFAS-IN with its cost of war report template. Instead, a Marine Corps representative stated that they assumed that the Navy affirmation letters were also intended to apply to the Marine Corps submission. In addition, the Department did not have SOPs in place to describe the cost of war reporting process. In July 2007, Department personnel began to develop SOPs. As of November 2007, the Marine Corps had submitted to DFAS-IN a draft of its SOPs.

Marine Corps Systems Command

Of the 28 Marine Corps submitting commands, the Marine Corps Systems Command was the only command to receive procurement and RDT&E supplemental GWOT funds from July 1, 2006, through June 30, 2007. To prepare the cost of war data submission, the command receives a cost of war template by e-mail each month from the Marine Corps Program and Resources Department. The Marine Corps Systems Command analysts gather cost of war data from accounting reports for obligations and disbursements incurred during the previous month and use it to populate the template. The Marine Corps Systems Command does not verify the submission prior to providing it to the Marine Corps Program and Resources Department because it relied in its accounting system and the verification process that occurs at the moment of committing funds in the accounting system.

At the time of our visit, the representatives of the Marine Corps Systems Command stated that they did not have SOPs for their cost of war reporting process. Because the Marine Corps Systems Command receives its guidance from the Department, the representatives stated that they considered any guidance received from the Department to be their SOPs for preparing the cost of war data submission. Further, a representative from the command stated that the Department did not require the Marine Corps Systems Command to provide affirmation statements with the completed template.

Appendix H. Management Comments on the Finding and Appendices and Our Response

Our detailed response to the comments from the First Assistant, Deputy Assistant Secretary of the Navy (Financial Management and Comptroller); the Acting Inspector General, Department of the Navy, responding for the Commander, Naval Air Systems Command; and the Comptroller, Defense Advanced Research Project Agency on the draft report finding and appendices of this report follow. The complete text of those comments can be found in the Management Comments section of this report.

Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) Comments

Although not required to comment, the First Assistant, Deputy Assistant Secretary of the Navy (Financial Management and Comptroller) agreed with the report recommendations. Specifically, he stated that on September 29, 2008, his office issued guidance on capturing and reporting contingency operation costs in Navy accounting systems. The guidance requires Navy budget submitting offices to report and track all contingency costs regardless of source. The First Assistant further stated that in the memorandum, “Accuracy of Department of Defense (DoD) Supplemental & Cost of War Execution Report for Global War on Terrorism,” dated April 28, 2006, his office also required Navy budget submitting offices to attest to the accuracy and affirm that budget monthly cost reports provide a fair representation of ongoing activities related to contingency operations. He further stated that all reporting components were directed to comply with the DoD Financial Management Regulation, volume 12, chapter 23.

Our Response

Implementation of the First Assistant, Deputy Assistant Secretary of the Navy (Financial Management and Comptroller) direction within the Navy will enable the USD(C)/CFO to report reliable obligation information in the cost of war report. As stated in the draft report in Appendix G, we acknowledge that Navy budget submitting offices were required to submit affirmation statements along with the monthly cost of war data submission.

Naval Air Systems Command Comments

Although not required to comment, the Acting Inspector General, Department of the Navy, responding for the Commander, Naval Air Systems Command, provided comments. The Acting Inspector General agreed with the recommendations in the draft report; however, he did not agree with our summary of the Naval Air System Command’s implementation of SOPs and its verification processes and affirmation of cost of war data. Specifically, the Acting Inspector General stated that NAVAIR used internal guidance as its SOPs for the accounting and reporting of contingency cost data and that the guidance was provided to the business and financial managers of GWOT funds. Also, he did not agree with our audit results that showed NAVAIR partially verified cost of war data that were reported. He stated that NAVAIR uses reports from the accounting

systems to track obligations and expenditures reported in the cost of war report and that comptroller and business financial management personnel conduct detailed reviews to verify that funding is properly executed. Further, the Acting Inspector General disagreed with report statements that NAVAIR was not required to provide affirmation statements along with the cost of war submission and stated that NAVAIR prepares and provides affirmation statements along with its monthly cost of war submission.

Our Response

We considered the Acting Inspector General's comments and revised the report to clarify that, based on the USD(C)/CFO memorandum, "Accuracy of Contingency Operation and Disaster Relief Cost Reports," March 3, 2006, NAVAIR was not required to provide affirmation statements. Subsequently, the Department of the Navy, Office of the Assistant Secretary (Financial Management, and Comptroller), on April 28, 2006, provided further implementing guidance that required each Navy budget submitting office to attest to the accuracy of monthly cost reports and affirm that those reports provide a fair representation of on-going GWOT activities. Although the Acting Inspector General stated that NAVAIR prepares and provides affirmation statements with its monthly cost of war submission, NAVAIR did not provide those statements along with its cost of war report submissions for our review. In addition, we also considered the Acting Inspector General's comments regarding NAVAIR verification of cost of war data. We still maintain that NAVAIR only partially verifies cost of war data because it relies on cost data provided by the Navy's financial management systems and on verification processes performed at the original point of data entry and did not verify cost data reported to supporting documentation. Further, we considered the Acting Inspector General's comments on the use of internal guidance for accounting and reporting on contingency operations. Although we recognize that NAVAIR provided financial managers of GWOT funds with e-mail instructions for completing the cost of war submission, the guidance was not sufficient to ensure that NAVAIR budget submitting offices prepared accurate, complete, and supportable data for the cost of war report.

Defense Advanced Research Projects Agency

Although not required, the Comptroller, Defense Advanced Research Projects Agency provided comments. The Comptroller generally agreed with the recommendations of the report; however, he took exception to our summarization of its implementation of SOPs and the submission of affirmation statements for data submitted for the cost of war report. In his comments, the Comptroller stated that DARPA is a Defense agency within the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics and not organizationally aligned with any DoD Component. Further, he stated that DARPA was not tasked to be a reporting activity for cost of war reporting purposes and, therefore, did not provide monthly cost of war reporting data to the Army. The Comptroller further stated that DARPA cost of war data that the Army received through the Assistant Secretary of the Army for Acquisition, Logistics, and Technology were obtained from an unofficial DARPA source without the knowledge and the involvement of DARPA financial authorities. Further, the Comptroller stated that because DARPA typically does not receive GWOT supplemental funding, the reporting of such data and the submission

of any associated affirmation statements was handled on a special case basis rather than addressed in existing standard operating procedures.

Our Response

Although we agree that DARPA is not organizationally aligned under any DoD Component, we do not agree with DARPA statements that the Army did not require it to submit monthly cost of war data. In response to comments, we revised the report to more clearly communicate that DARPA had received a request for cost of war data by e-mail from the Army but did not respond to the request. We also clarified that because DARPA not did respond, the Army requested assistance from the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) in obtaining obligation and disbursement data, which it stated it did through a counterpart at DARPA. In consideration of DARPA's remark regarding the SOP requirement, we revised the report to state, "We limited the applicability of SOPs to organizations that received GWOT supplemental and bridge funding directly and on a continuous basis."

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Office of the Under Secretary of Defense (Comptroller) Comments



COMPTROLLER

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

OCT 31 2008

MEMORANDUM FOR PROGRAM DIRECTOR, ACQUISITION AND CONTRACT
MANAGEMENT, SERVICE, OFFICE OF INSPECTOR
GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: DoD OIG Draft Audit Report D2006-D000AE-0241.001, "DoD Cost of War
Reporting of Supplemental Funds Provided for Procurement and Research,
Development, Test, and Evaluation," September 23, 2008

This memorandum responds to the subject draft audit report provided to this
office for review and comment. Upon review of the draft report, we concur with the
recommendations. Our detailed response to the report findings and recommendations
is outlined in the attachment.

The Department appreciates the opportunity to comment on the subject report.
My point of contact, Ms. Joy Marcou, can be contacted at 703-602-0125 or
joy.marcou@osd.mil.

A handwritten signature in black ink, appearing to read "D. P. Smith".

David P. Smith
Acting Deputy Chief Financial Officer

Attachment:
As stated

DoDIG Draft Report D2006-D000AE-0241.001
DoD Cost of War Reporting of Supplemental Funds Provided for Procurement and
Research, Development, Test, and Evaluation

A. GENERAL COMMENTS

On January 18, 2007, the Under Secretary of Defense (Comptroller) (USD(C)) directed the Defense Finance and Accounting Service (DFAS) to establish the Global War on Terror Project Management Office (GWOT PMO) to develop and execute steps to improve GWOT reporting. The Defense Finance and Accounting Service-Indianapolis provides the resources to support the GWOT PMO and is also the DFAS operational entity responsible for the receiving data and compiling the consolidated "Supplemental Cost of War Execution Report."

On February 26, 2007, the Deputy Secretary of Defense established the Global War on Terror Senior Steering Group (GWOT SSG) with directions for the group to report to the USD(C). The SSG was chartered to provide governance for timely resolution of issues that impact the accuracy and credibility, transparency, and timeliness of GWOT cost reporting. The GWOT PMO became the mechanism for the GWOT SSG to address and implement changes in GWOT cost reporting.

Since their establishment, the GWOT SSG and PMO have achieved numerous major improvements to cost reporting, many of which already address the recommendations in this report. Some of these major accomplishments are:

- Achieved Green Progress rating on the President Management Agenda Financial, GWOT Reporting Scorecard
- Established GWOT accuracy and compliance measures
- Validated that results of cost models were reported on GWOT Cost of War (CoW) reports
- Developed GWOT CoW reporting standard operating procedures (SOPs) for Services
- Implemented Status of Funds for external customers and uploaded to Executive Dashboard
- Provided Status of Funds variance analysis to USD/C/(Program and Budget)
- Completed Initial Operating Capability (IOC) deployment of an automated GWOT cost reporting system, Contingency Operation Reporting and Analysis Service (CORAS)
- Began population of CORAS with automated fiscal year 2009 data

B. RESPONSE TO RECOMMENDATIONS

The Department of Defense Inspector General recommended that the Under Secretary of Defense (Comptroller)/Chief Financial Officer (USD(C)/CFO):

RECOMMENDATION 1. Verify that the DoD Components and subordinate reporting entities have developed and issued standard operating procedures and ensure that the standard operating procedures reiterate the requirement to include affirmation statements with their cost of war data for the "Supplemental Cost of War Execution Report," in accordance with DoD Regulation 7000.14-R, "Department of Defense Financial Management Regulation," Volume 12, "Special Accounts, Funds and Program," Chapter 23, "Contingency Operations," September 2007.

OUS(D) RESPONSE: Concur. Beginning in the 1st Quarter of fiscal year 2008, the GWOT CoW PMO, Business Process Team assisted the Components in preparing standard operating procedures (SOPs). The Business Process Team provided Components with standard documentation outlining most of the compilation process and detailing the requirements for preparing variances, footnotes, and affirmation statements. Each Component was then required to complete the SOPs by including their Component-specific guidance and procedures. As a follow-on action, the Deputy Chief Financial Officer issued a memorandum, on October 31, 2008, requiring Components who report GWOT investment costs provide, along with their monthly affirmation statement, a verification that their guidance/SOPs are complete. All guidance/SOPs must be finalized and published by February 25, 2009. The results of the verification that SOPs are completed will be compiled and briefed by the GWOT PMO at the 2nd Quarter GWOT SSG meeting.

OUS(D) ESTIMATED COMPLETION DATE: March 31, 2009

RECOMMENDATION 2. Require the DoD Components and subordinate reporting entities to verify that their cost data is accurate, complete, supportable, and properly affirmed by obtaining and reviewing supporting documentation submitted by reporting offices before submission to the Defense Finance and Accounting Service-Indianapolis for compilation into the "Supplemental Cost of War Execution Report," in accordance with DoD Regulation 7000.14-R, "Department of Defense Financial Management Regulation (DoDFMR)," Volume 6A, "Reporting, Policies and Procedures," Chapter 2 "Financial Reports Roles and Responsibilities," March 2002.

OUS(D) RESPONSE: Concur. The requirement that DoD Components validate their cost data has already been directed by the GWOT SSG. On February 14, 2008, the Principal Deputy Under Secretary of Defense (Comptroller), as Co-Chairman for the GWOT SSG, directed that Components review the accuracy of their costs in accordance with the "Guidance for Validation of GWOT Obligations." This guidance provided the DoD Components with detailed procedures for validating the accuracy of their obligations.

OUS(D) ESTIMATED COMPLETION DATE: Completed.

RECOMMENDATION 3. Require the Defense Finance and Accounting Service-Indianapolis (DFAS-IN) to ensure the submission of affirmation statements that accompany the monthly cost statement and associated analysis submitted by the DoD Components.

OUSDC(C) RESPONSE: Concur. A process was established by DFAS in August 2007 to track and measure the timeliness of the affirmation statements and associated analysis (footnotes) submitted by the DoD Components. Any missing footnotes and affirmations are identified and communicated to OUSDC(C); who then takes this information into consideration when approving and releasing the monthly reports. The DFAS continues to follow-up on all missing information and forwards any missing information to OUSDC(C) upon receipt. The GWOT SSG is briefed quarterly on the results of the timelines scorecard and non-compliant Components are identified.

OUSDC(C) ESTIMATED COMPLETION DATE: Completed.



COMPTROLLER

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

OCT 31 2008

MEMORANDUM FOR ASSISTANT SECRETARIES OF THE MILITARY
DEPARTMENTS (FINANCIAL MANAGEMENT AND
COMPTROLLER)
ASSISTANT DEPUTY COMMANDANT OF THE MARINE
CORPS (PROGRAMS AND RESOURCES)
DIRECTOR, FORCE STRUCTURE, RESOURCES AND
ASSESSMENT, JOINT CHIEFS OF STAFF
COMPTROLLER, U.S. SPECIAL OPERATIONS COMMAND
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE
DIRECTOR, DEFENSE INFORMATION SYSTEMS AGENCY

SUBJECT: Standard Operating Procedures for Global War on Terror (GWOT) Investment
Costs

A recent draft audit report, D2006-D000AE-0241.001, "DoD Cost of War Reporting of Supplemental Funds Provided for Procurement and Research, Development, Test, and Evaluation," identified areas to increase the accuracy and completeness of the Department's cost of war reporting. The Department agreed with the audit recommendations and took actions to ensure Components would: a) prepare standard operating procedures (SOPs) for cost of war reporting, b) verify cost data included in the reports, and c) submit affirmation statements. Specific instructions follow.

Beginning December 2008, each Component should include a paragraph verifying the status of their investment fund SOP. The required format is attached. All investment SOPs should be finalized and published no later than February 25, 2009. Each Component's SOP status will be briefed at the 2nd Quarter, FY 2009 GWOT Senior Steering Group.

Your verification confirms the SOPs were comprehensive and communicated with subordinate reporting entities. The SOPs should include instructions to use specific codes to record costs in the accounting systems, perform data validation and variance analysis, prepare footnotes, and submit an affirmation statement. The SOPs should also outline your methodology for capturing and reporting investment costs whether recorded in accounting systems or reported using an alternate data source.

The GWOT PMO/DFAS point of contact is Ms. Jo Simpson, who can be reached at (317) 510-5625, or jo.simpson@dfas.mil. My point of contact, Ms. Joy Marcou, can be reached at 703-602-0125 or joy.marcou@osd.mil.

A handwritten signature in black ink, appearing to read "D P Smith".

David P. Smith
Acting Deputy Chief Financial Officer

Attachment
As stated

Addendum to Affirmation Statements
Verification of Investment SOPs

References:

The DoD Financial Management Regulation, Volume 12, Chapter 23 "Contingency Operations"
USD(C) Memorandum, "Accuracy of Contingency Operation and Disaster Relief Cost Reports", March 3, 2006
USD(C) Memorandum, "Affirmation Authority for Contingency Operation and Disaster Relief Cost Reports," June 30, 2006
OUSD(C) Memorandum, "Revised Instructions for Contingency Operation Cost Report Footnotes," January 4, 2008
OUSD(C) Memorandum, "Continued Improvement of Contingency Operations Reporting," February 15, 2008.

Instructions:

Include only the applicable paragraph in your affirmation statement submitted on December 26, 2008; January 25, 2009; and February 25, 2009.

The (Component name) Standard Operating Procedures for GWOT reporting of Investment funds are complete and were published on _____.

The (Component name) Standard Operating Procedures for GWOT reporting of Investment funds have not been completed, but will be finalized and published no later than February 25, 2009.

Department of the Navy Comments



DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
(FINANCIAL MANAGEMENT AND COMPTROLLER)
1000 NAVY PENTAGON
WASHINGTON DC 20350-1000

October 24, 2008

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)

SUBJECT: REVIEW OF REPORT ON DOD COMPONENTS' USE OF GLOBAL WAR ON TERROR SUPPLEMENTAL FUNDING PROVIDED FOR PROCUREMENT AND RESEARCH, DEVELOPMENT, TEST, AND EVALUATION (PROJECT NO. D2006-D000AE-0241.001)

Thank you for the opportunity to comment on the report on the Department of Defense (DoD) Components' Use of Global War on Terror Supplemental Funding Provided for Procurement and Research, Development, Test, and Evaluation. Although the Department of the Navy was not required to comment on the recommendations for this project, my responses to recommendations 1 and 2 are below.

Recommendation 1:

Verify the DoD Components and subordinate reporting entities have developed and issued standard operating procedures and ensure the standard operating procedures reiterate the requirement to include affirmation statements with their cost of war data.

Response:

Concur, with comment. My office issued guidance on 29 September 2008 regarding capturing and reporting of contingency operating costs in the various accounting systems utilized by the Department of the Navy. This guidance requires reporting and tracking of all contingency costs, regardless of source. The guidance memorandum is contained at attachment (1).

Recommendation 2:

Require the DoD Components and subordinate reporting entities verify their cost data is accurate, complete, supportable, and properly affirmed.

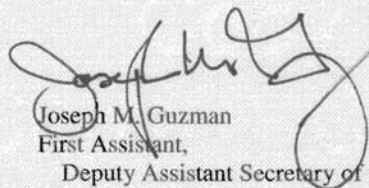
Response:

Concur, with comment. With regard to subordinate reporting entities, the policy and procedures promulgated by my office, issued by Memorandum for Distribution dated 28 April 2006, already requires submission of affirmation statements by DON components and subordinate entities to attest to the accuracy of the monthly cost reports. This correspondence is contained at attachment (2). It should be noted all reporting components, including SSP, are directed to comply with the DoD Financial Management

FM&C FRONT OFFICE FILE COPY

Regulations, specifically, Volume. 12, Chapter 23 requires reporting of all incremental costs of supporting contingency operations. This guidance is available at http://www.dod.mil/comptroller/fmr/12/12_23.pdf.

My point of contact for this matter is Mr. Rick McKutchin, FMB11 who can be reached at (703) 695-5599. Mr. James Moser, FMB-22 can be contacted also and can be reached at (703) 692-1765.


Joseph M. Guzman
First Assistant,
Deputy Assistant Secretary of the Navy
(Financial Management and Comptroller)

Attachments:

- (1) OASN(FM&C) memo of 29 Sep 08, Subj: "Guidance for Financial Recording of All Contingency Operations Including the Global War on Terror (GWOT), Natural Disasters and Defense Support of Civil Authorities (DSCA)"
- (2) OASN(FM&C) memo of 28 Apr 06, Subj: "Accuracy of Department of Defense (DoD) Supplemental and Cost of War Execution Report for Global War on Terrorism Operations in FY 2006"



DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
(FINANCIAL MANAGEMENT AND COMPTROLLER)
1000 NAVY PENTAGON
WASHINGTON, DC 20350-1000

SEP 29 2008

MEMORANDUM FOR DISTRIBUTION

Subj: GUIDANCE FOR FINANCIAL RECORDING OF ALL CONTINGENCY
OPERATIONS INCLUDING THE GLOBAL WAR ON TERROR (GWOT),
NATURAL DISASTERS AND DEFENSE SUPPORT OF CIVIL AUTHORITIES
(DSCA)

Ref: (a) DOD Financial Management Regulations, Vol. 12, Chapter 23

Encl: (1) Navy Contingency Reporting Guidance
(2) Marine Corps Contingency Reporting Guidance

Purpose. To provide supplementary guidance on the Department of the Navy (DON) contingency operations accounting and reporting policy, expanding upon reference (a). Implementation of this guidance will strengthen the internal control environment at the command level. Recent quarterly GWOT Cost of War (COW) Report Validation Testing has identified weaknesses in internal controls and reporting of contingency costs. Necessary corrective actions identified through the quarterly testing have been addressed within the guidance. These corrective actions and internal controls have been designed to increase visibility of costs, standardize the contingency operation reporting process, and increase audit ability within the financial systems. While this is a working document and will be updated periodically, it establishes a basis for contingency reporting.

Action. All Budget Submitting Offices (BSOs) are expected to comply with enclosure (1) beginning 01 October 2008. Within the official accounting systems of record, all contingency obligations and expenditures must be recorded using the policies contained in this guidance. Data testing will then commence at the beginning of 2nd Quarter, Fiscal Year 2009, to validate proper recordation of expenditures.

Questions regarding the guidance and its application should be referred to Mr. Steve Sninsky (Office of Financial Operations, FMO) at steve.sninsky@navy.mil, Mr. Rick McKutchin (Office of Budget, FMB1) at rick.mckutchin1@navy.mil, CDR Jeffrey Kirby (FMB1) at jeffrey.kirby@navy.mil, or Mr. Peter Holmes (FMB1) at peter.holmes@navy.mil. If your reporting process is not covered in the enclosed guidance, contact FMO to receive additional instruction for recording contingency operation obligations and expenditures.

JOHN W. MCNAIR
Associate Director
Office of Budget

Distribution:
(See next page)

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FKA1G (COMNAVSEASYSYSCOM)
FKA8F (DIRSSP)
FS1 (DONI)
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PEO for Tactical Air Programs
PEO for Enterprise Information Systems
PEO for C4I and Space
DRPM for Distributed Common Ground System – Navy



DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
(FINANCIAL MANAGEMENT AND COMPTROLLER)
1000 NAVY PENTAGON
WASHINGTON, DC 20350-1000

APR 28 2006

MEMORANDUM FOR DISTRIBUTION

Subj: ACCURACY OF DEPARTMENT OF DEFENSE (DOD) SUPPLEMENTAL & COST OF WAR EXECUTION REPORT FOR GLOBAL WAR ON TERRORISM OPERATIONS IN FY 2006

Ref: (a) DoD Financial Management Regulations, Vol. 12, Chapter 23:
http://www.dod.mil/comptroller/fmr/12/12_23.pdf

Encl: (1) Affirmation statement

Accurate financial data is essential to the effective management of funds entrusted to the Department of the Navy. It is the responsibility of all engaged in the contingency operations reporting process, such as the Global War on Terror and disaster relief like Hurricanes Katrina and Rita, to ensure compliance with prescribed guidelines, thereby making certain that costs reported are indeed accurate.

In support of new Office of the Secretary of Defense requirements, each budget submitting office is now required to attest to the accuracy of the monthly cost reports and affirm that the report provides a fair representation of ongoing activities related to those operations. Your affirmation in the format of enclosure (1) must accompany the monthly Cost of War report and disaster relief reports. The authority level for affirmation is the Comptroller/Financial Manager. If it is necessary to delegate, the authority may be delegated no lower than the level of the deputy comptroller/financial manager.

This guidance is effective immediately. Your continued attention to improving financial management is appreciated.

My staff point of contact for this matter is CDR Dan Worra. He can be reached at (703) 695-4057 or daniel.worra@navy.mil.

S. D. BOZIN
Rear Admiral, U.S. Navy
Director, Office of Budget

Subj: ACCURACY OF DEPARTMENT OF DEFENSE (DOD) SUPPLEMENTAL &
COST OF WAR EXECUTION REPORT FOR GLOBAL WAR ON
TERRORISM OPERATIONS IN FY 2006

Distribution List:

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ONI
HQM (P&R)
DIR, SSP

Date

I affirm the (month/year) cost data being submitted by (Budget Submitting Office Name) is a fair representation of our on-going activities related to the Global War on Terror (GWOT), Contingency Operations (ConOps) and Disaster Relief Efforts. Explanation is included to assist in interpretation of the costs presented and the methodologies used to gather data not readily available within our accounting systems.

(Signature)

Printed Name & Title

Enclosure (1)



DEPARTMENT OF THE NAVY
NAVAL AIR SYSTEMS COMMAND
RADM WILLIAM A. MOFFETT BUILDING
47123 BUSE ROAD, BLDG 2272
PATUXENT RIVER, MARYLAND 20670-1547

IN REPLY REFER TO
5200
AIR-00G4A/082
OCT 16 2006

From: Commander, Naval Air Systems Command
To: Assistant Secretary of the Navy, Financial Management and Comptroller

Subj: DODIG DRAFT REPORT ON DOD COST OF WAR REPORTING OF
SUPPLEMENTAL FUNDS PROVIDED FOR PROCUREMENT AND RESEARCH,
DEVELOPMENT, TEST AND EVALUATION (PROJECT NUMBER D2006-
D000AE-0241.001); COMMENTS TO

Ref: (a) DoDIG Memo of 23 Sep 08

Encl: (1) Naval Air Systems Command (NAVAIR) Comments to Draft Report

1. Reference (a) submitted subject draft report for review and comments. Accordingly, enclosure (1) forwards management response to subject report.
2. NAVAIR responses have been discussed with the Assistant Secretary of the Navy, Financial Management and Comptroller Contingency Operations Branch.
3. Please direct questions concerning the response to Ms. Ginger Soroka at 301-757-2105, or Ms. Udora Myers at 301-757-2104. For additional information or clarification on technical issues, contact Mr. Jerry Short at 301-757-1524.


B.D. MURRAY
Inspector General
Acting

**NAVAL AIR SYSTEMS COMMAND COMMENTS TO
DODIG DRAFT REPORT
DOD COST OF WAR REPORTING OF SUPPLEMENTAL FUNDS PROVIDED FOR
PROCUREMENT AND RESEARCH, DEVELOPMENT, TEST AND EVALUATION
PROJECT NUMBER D2006-D000AE-0241.001**

Finding – Oversight Over the Preparation of the DoD Supplemental and Cost of War Execution Report

The DoD Comptroller needs to improve its controls over the DoD Components' cost of war reporting process to provide reasonable assurance regarding the reliability of obligation information reported in the "Department of Defense (DoD) Supplemental and Cost of War Execution Report" (the cost of war report) for procurement and RDT&E. The controls need improvement because the DoD Comptroller did not:

- ensure that the DoD Components and subordinate reporting entities developed and issued standard operating procedures (SOP) or other supplemental guidance to reporting offices on contingency cost reporting, as specified in Department of Defense Financial Management Regulation;
- ensure that the DoD Components and subordinate reporting entities verified reported cost data by obtaining and reviewing supporting documentation to ensure that the data were accurate, complete, supportable, and properly affirmed before submission to Defense Finance and Accounting Service Indianapolis (DFAS-IN) for compilation into the cost of war report; and
- ensure that DoD Components submitted affirmation statements to DFAS-IN along with the monthly cost statements and associated analysis.

As a result, report users, such as Congress, cannot be assured that the report accurately portrays a detailed accounting of obligations of appropriations provided for the continuation of the Global War on Terrorism (GWOT). During the audit, the Office of the DoD Comptroller began to establish SOPs for the cost of war reporting process and DFAS-IN established a performance measure to track and report the DoD Components compliance with existing policy.

NAVAIR COMMENTS: Concur.

RECOMMENDATIONS: We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer:

Enclosure (1)

1. Verify that the DoD Components and subordinate reporting entities have developed and issued standard operating procedures and ensure that the standard operating procedures reiterate the requirement to include affirmation statements with their cost of war data for the "Supplemental and Cost of War Execution Report," in accordance with DoD Regulation 7000.14-R, "Department of Defense Financial Management Regulation," volume 12, "Special Accounts, Funds and Programs," chapter 23, "Contingency Operations," September 2007.

2. Require the DoD Components and subordinate reporting entities to verify that their cost data are accurate, complete, supportable, and properly affirmed by obtaining and reviewing supporting documentation submitted by reporting offices before submission to the Defense Finance and Accounting Service-Indianapolis for compilation into the "Supplemental and Cost of War Execution Report," in accordance with DoD Regulation 7000.14-R, "Department of Defense Financial Management Regulation," volume 6A, "Reporting Policies and Procedures," chapter 2, "Financial Reports Roles and Responsibilities," March 2002.

3. Require the Defense Finance and Accounting Service-Indianapolis to ensure the submission of affirmation statements that accompany the monthly cost statements and associated analysis submitted by the DoD Components.

NAVAIR COMMENTS: Concur. While NAVAIR concurs with the recommendations, it should be noted that NAVAIR did utilize internal guidance as SOPs for accounting and reporting for contingency operations. NAVAIR detailed procedures have been included in the Department's SOPs for accounting and reporting contingency obligations and expenditures. The Navy SOP was published 29 September 2008. Verification of cost data is done by NAVAIR Comptroller and business financial management personnel against documented contingency operations fund usage documents and contracts. NAVAIR utilizes the system of record for which the actual funding documents and contracts are stored, NAVAIR reports from DFAS, monthly obligation/expenditure reports, and NAVAIR also conducts tri-annual reviews which include GWOT transactions.

NAVAIR GENERAL COMMENTS TO DRAFT REPORT: NAVAIR "does not concur" with sentences five through eight of the first paragraph on page 29 of the Draft Report, "NAVAIR representatives stated that additional verification of the cost data is not done. Rather, they rely on data provided in the accounting system and the controls that are in place to verify the accuracy of the data as funds are executed. NAVAIR was not required to submit affirmation statements along with its cost of war submission. Also, it did not have documented SOPs outlining its processes and procedures for compiling and submitting the cost of war data to Financial Management Budget (FMB)." Statements are inaccurate for the following reasons:

- NAVAIR utilized internal guidance as the Command's SOP for accounting and reporting contingency operation costs. This guidance was distributed to the business and requiring financial managers for which GWOT funds were executed and report in the Navy Enterprise Resource Planning (NERP) financial system of record. In fact, the Navy adopted the NAVAIR procedures for reporting contingency operations costs in NERP and included those exact procedures in the Navy's published SOP titled "Contingency Operations Accounting and Reporting Guidance" dated 29 September 2008.

- The summary suggests NAVAIR “Partially” verified reported cost data. NAVAIR does not concur with the findings that additional verification of the cost data is not done. NAVAIR used reports from the financial system of record to track obligations and expenditures based on the specific purchase request or contract issued and reported on the cost of war report. Additionally, NAVAIR issued specific guidance on what details need to be included within the funding documents and on the Procurement Initiation Documents (PIDs), which includes description details in the item and header text and the use of the GWOT functional area. Comptroller uses this information to track the GWOT funding. This supporting documentation is maintained and stored in the financial system of record. As for ensuring the data is accurate, complete, and supportable, detail reviews are conducted by comptroller and business financial management personnel that require drilling down into the commitment, obligation, and expenditure information for each project unit within the financial system of record to verify that the funding is being executed properly.
- The summary also suggests NAVAIR was not required to submit affirmation statements along with its cost of war submission. Affirmation statements are prepared and submitted to the NAVAIR Comptroller on the 6th of each month for signature. Once reviewed, a signed affirmation letter is returned to the Comptroller Cost of War Coordinator, who in turn submits the monthly cost of war report to FMB by the 8th of every month, along with the affirmation letter.

Defense Advanced Research Projects Agency Comments



DEFENSE ADVANCED RESEARCH PROJECTS AGENCY
3701 NORTH FAIRFAX DRIVE
ARLINGTON, VA 22203-1714

October 22, 2008

MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL

Subject: Report on the DoD Cost of War Reporting of Supplemental Funds Provided
for Procurement and Research, Development, Test and Evaluation
(Project No. D2006-D000AE-0241.001)

I appreciate the opportunity to respond to your draft proposed report on the DoD Cost of War Supplemental Funds for Procurement and RDT&E. While such funds have played an extremely small role in DARPA's portfolio, I recognize the significance of an effective process for reporting them.

The attachment details DARPA's response to the proposed report and should assist in your understanding of our business position and processes regarding Army handling of cost of war reporting. Please contact DARPA's IG/GAO Liaison, Brian Sosdian, at (703) 696-2418, Brian.Sosdian@darpa.mil with any questions.

A handwritten signature in black ink, appearing to read "W. E. Lehr, III", is positioned above the printed name.

William E. Lehr, III
Comptroller

Attachment:
DARPA Response to Draft Report

DEFENSE ADVANCED RESEARCH PROJECTS AGENCY (DARPA)
Response to DRAFT of PROPOSED REPORT
DoDIG Project No. D2006-D000AE-0241.001)
“DoD Cost of War Reporting of Supplemental Funds Provided for Procurement and
Research, Development, Test and Evaluation”

While DARPA generally agrees with the report’s recommendations, we do not agree with some statements specifically involving DARPA. DARPA requests that language as noted below be revised as shown or eliminated.

DARPA is mentioned in the middle of page 26 of the report as an Army “reporting field activity.” DARPA is a Defense agency within the Office of the Under Secretary of Defense (Acquisition, Technology and Logistics). DARPA is not organizationally aligned with any Defense Service. Further, DARPA has not been tasked to be a reporting activity for cost of war reporting. Rather, DARPA received Army funds to apply to one of its programs. It is requested that the last two sentences of the fourth paragraph be changed to, “We judgmentally selected for review one executing activity from each of the three appropriation sponsors. Those executing activities were the Army Materiel Command (AMC), the Army Rapid Equipping Force, and the Defense Advanced Research Projects Agency (DARPA), an organization within the Office of the Secretary of Defense.”

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DARPA is also mentioned at the bottom of page 27. Again, DARPA is not an organizational element of the Army and should not be treated or considered as such. While the second sentence is factual, it does not reflect the more basic statement made by DARPA. Further, the fourth sentence is incorrect. The Army Budget Office obtained information from DARPA only from a contractor assisting one of our programs, rather than a functional counterpart of either the Army Budget Office or ASAALT. Finally, the last sentence requires clarification to be consistent with statements made by the DARPA Comptroller in the DoDIG’s December 21, 2007 meeting with DARPA. Request the last paragraph be changed to:

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“Although DARPA received GWOT supplemental RDT&E funding from the Army, as a separate agency it is not in the Army reporting chain. Representatives of DARPA stated that they had not been required to provide the Army Budget Office with monthly obligation and disbursement data related to the supplemental funds they received. Consequently, DARPA did not populate the CONOPS template or submit it to the appropriation sponsor. The Army Budget Office instead worked through the Office of the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) which obtained information from an unofficial source in DARPA without the knowledge or involvement of DARPA financial authorities. DARPA representatives stated that because they do not regularly receive supplemental funding, and have not been tasked to provide cost data and associated affirmation statements for the Cost of War Report, such funding and reporting, when and if required, is handled on a special case basis by the DARPA Comptroller, rather than under an existing standard operating procedure.”



Inspector General Department *of* Defense