

September 2005

GLOBAL WAR ON TERRORISM

DOD Needs to Improve the Reliability of Cost Data and Provide Additional Guidance to Control Costs



G A O

Accountability * Integrity * Reliability



Highlights of [GAO-05-882](#), a report to congressional committees

Why GAO Did This Study

Since the attacks of September 11, 2001, the Department of Defense (DOD) has reported spending \$191 billion through May 2005 to conduct the Global War on Terrorism (GWOT). On an ongoing basis, DOD compiles and reports information on the incremental costs of the war, and uses these data in preparing future funding requests. To assist Congress in its oversight of war spending, GAO assessed (1) whether DOD's reported war costs are based on reliable data, (2) the extent to which DOD's existing financial management policy is applicable to war spending, and (3) whether DOD has implemented cost controls as operations mature. GAO focused primarily, but not exclusively, on fiscal year 2004 reported costs—the latest full year of data available at the time of GAO's review.

What GAO Recommends

GAO is making a number of recommendations to the Secretary of Defense to (1) undertake a series of steps to ensure that reported GWOT costs are reliable, (2) expand its financial management regulation for contingency operations to include contingencies as large as GWOT, and (3) establish guidelines to control costs. In commenting on a draft of this report, DOD agreed with all but one of GAO's recommendations and described steps it has taken to improve its cost reporting.

www.gao.gov/cgi-bin/getrpt?GAO-05-882.

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

GLOBAL WAR ON TERRORISM

DOD Needs to Improve the Reliability of Cost Data and Provide Additional Guidance to Control Costs

What GAO Found

GAO found numerous problems in DOD's processes for recording and reporting costs for GWOT, raising significant concerns about the overall reliability of DOD's reported cost data. As a result, neither DOD nor Congress can reliably know how much the war is costing and details on how appropriated funds are being spent, or have historical data useful in considering future funding needs. On the basis of GAO's work, DOD is taking steps to improve its cost reporting. Factors affecting the reliability of DOD's reported costs include long-standing deficiencies in DOD's financial systems, the lack of a systematic process to ensure that data are correctly entered into those systems, inaccurately reported costs, and difficulties in properly categorizing costs. In at least one case, reported costs may be materially overstated. Specifically, DOD's reported obligations for mobilized Army reservists in fiscal year 2004 were based primarily on estimates rather than actual information and differed from related payroll information by as much as \$2.1 billion, or 30 percent of the amount DOD reported in its cost report. In addition, GAO found inadvertent double counting in the Navy's and Marine Corps' portion of DOD's reported costs amounting to almost \$1.8 billion from November 2004 through April 2005. Because it was not feasible to examine all reported costs and significant data reliability problems existed, GAO was not able to determine the extent that total costs were misstated.

Further complicating the data reliability issue is the fact that DOD has not updated its policy to address GWOT spending. Instead, DOD is using its existing financial management regulation for funding contingency operations, although it was developed and structured to manage the costs of small-scale contingency operations. GAO has noted that specific provisions of the existing policy conflict with the needs of GWOT. One conflict concerns the use of supplemental funds for base support activities at home stations. DOD's financial management regulation administratively precludes such use, but military service officials have spent billions of dollars in supplemental funds on these activities. Some of this spending appears to directly support the war, but some does not. DOD has updated its regulation on the basis of GAO's work.

While individual commands have taken steps to control costs and DOD policy generally advises its officials of their financial management responsibilities to ensure the prudent use of contingency funding, DOD has not established guidelines that would require all commands involved in GWOT to take steps to control costs and to keep DOD informed of those steps and their success. For example, the commander of coalition forces in Iraq has unilaterally set a 10 percent cost reduction target for fiscal year 2005 but the details are not widely known outside the command. With the growth in GWOT costs, there is a need to ensure that all commands seek to control costs, including the need to review and rationalize related requirements. Until the department establishes guidelines on cost controls and is routinely informed about the types of controls and their impact on costs, it cannot be sure that all that can be done to control costs is being done.

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September 21, 2005

Congressional Committees

Following the terrorists attacks of September 11, 2001, the United States began military operations to combat terrorism both in the United States and overseas. Military operations to defend the United States against further attacks are known as Operation Noble Eagle. Ongoing military operations in Afghanistan and Iraq are known as Operation Enduring Freedom and Operation Iraqi Freedom, respectively. Together, these three military operations are identified as the Global War on Terrorism (GWOT). Since the attacks, the Department of Defense (DOD) reports that it has obligated \$191 billion through May 2005 for conducting the war. Congress has enacted a series of supplemental appropriation acts to fund the war beginning in September 2001.

To assist Congress in its oversight role, we are continuing to undertake a series of reviews relating to the cost and funding of contingency operations in support of GWOT. In September 2003, we issued a report that discussed the funding outlook for fiscal year 2003.¹ We continued our analysis of fiscal year 2003 obligations and funding, and in May 2004 we issued a summary report comparing full-fiscal-year 2003 GWOT cost and funding.² In July 2004, we reported on the funding outlook for fiscal year 2004.³ We are currently continuing our review series by examining full-fiscal-year 2004 GWOT obligations and the availability of funding to cover those expenses and the funding outlook for the fiscal year 2005 GWOT supplemental appropriations for the war. We will report our results on these subjects separately.

This report contains our analyses of DOD's reporting on the costs of GWOT. On the basis of the authority of the Comptroller General, we assessed (1) whether DOD's reported war costs are based on reliable data, (2) the extent to which DOD's existing financial management policy is applicable to war

¹ GAO, *Military Operations: Fiscal Year 2003 Obligations Are Substantial, but May Result in Less Obligations Than Expected*, [GAO-03-1088](#) (Washington, D.C.: Sept. 17, 2003).

² GAO, *Military Operations: DOD's Fiscal Year 2003 Funding and Reported Obligations in Support of the Global War on Terrorism*, [GAO-04-668](#) (Washington, D.C.: May 13, 2004).

³ GAO, *Military Operations: Fiscal Year 2004 Costs for the Global War on Terrorism Will Exceed Supplemental, Requiring DOD to Shift Funds from Other Uses*, [GAO-04-915](#) (Washington, D.C.: July 21, 2004).

spending, and (3) whether DOD has implemented cost controls as operations mature. We focused our analysis primarily on fiscal year 2004 obligations specifically for military personnel and operation and maintenance expenses, as they represent the largest amount of reported spending. Obligations are incurred by the Defense Department and the military services through actions such as orders placed, contracts awarded, services received, or similar transactions made during a given period that will require payments during the same or a future period.⁴

To accomplish this review, we analyzed DOD's fiscal year 2004 monthly *Consolidated DOD Terrorist Response Cost Report*, which was renamed the *Supplemental and Cost of War Execution Report* in January 2005, to determine reported obligations by operation and by appropriation account for the military services. That report is the source document used by the department in discussing the cost of the war. It is not used in the department's funds or appropriations accounting. DOD's cost report does not include obligations incurred by the intelligence community; therefore, we did not review those obligations. To assess the reliability of DOD's data, we undertook a number of steps, including conducting limited testing on military personnel costs and operation and maintenance costs. At the unit level, we cross-checked data entries back to the reporting vehicle used to input the data into the GWOT cost report. We also conducted limited cross-checking of the U.S. Army Central Command's (ARCENT) document register numbers against documentation controlled by the Defense Finance and Accounting Service (DFAS), Rome, New York. We discussed with Army financial managers the processes used to ensure that GWOT obligation data provided from Army units were accurate and reliable. We also reviewed Army Audit Agency, Air Force Audit Agency, and Naval Audit Service reviews of their respective service's GWOT spending. To determine what guides GWOT spending, we focused our efforts on analyzing the fiscal year 2004 Defense Appropriations Act,⁵ the fiscal year 2004 Emergency Supplemental Appropriations Act,⁶ and DOD's and the military services' specific policies and guidance. We also met with officials from the Office of the Under Secretary of Defense (Comptroller) and the Army, Navy, and Marine Corps to discuss the sufficiency of DOD's financial management

⁴ 31 U.S.C. sec. 1501; See Department of Defense Financial Management Regulations, 7000.14-R, vol. 1, Definitions, xvii.

⁵ Pub. L. No. 108-87, 117 Stat. 1054 (Sept. 30, 2003).

⁶ Pub. L. No. 108-106, 117 Stat. 1209 (Nov. 6, 2003).

policies and procedures for contingency operations, including their applicability to GWOT conditions. To determine controls over spending and when they could be strengthened, we identified current controls and held discussions with resource management officials from major commands and units that had deployed to Iraq and Afghanistan on what benchmarks might be used to ascertain when controls could be strengthened as operations mature and what steps DOD has directed or implemented to control costs. We did limited work at the Air Force because the Air Force Audit Agency was undertaking a concurrent review of Air Force GWOT spending; instead, we drew upon that work as appropriate. As discussed below, we found that the reported cost data are not reliable because of long-standing deficiencies in DOD's financial and accounting systems, the lack of a systematic process to ensure that data are properly entered into those accounting systems, the use of estimates rather than actual data for some of DOD's reported costs, and the incorrect categorization of some reported costs due to the large number of cost categories and limited training on how to apply them.

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

Results in Brief

We found numerous problems with DOD's processes for recording and reporting costs for the Global War on Terrorism, raising significant concerns about the overall reliability of DOD's reported cost data. As a result, neither DOD nor Congress (1) can reliably know how much the war is costing and details on how appropriated funds are being spent or (2) have historical data useful in considering future funding needs. On the basis of our work, DOD is taking steps to improve its cost reporting. However, because it was not feasible to examine all reported costs and because significant data reliability problems existed, we were not able to determine the extent that total costs were misstated. Our examination of DOD's reported costs in support of GWOT found a number of problems affecting the accuracy of reported costs. These problems included long-standing deficiencies in DOD's financial management systems and business processes, reported military personnel obligations that did not match payroll records, incorrectly categorized operation and maintenance obligations, the use of estimates instead of actual information, and a lack of supporting documentation. Factors contributing to DOD's challenges in reporting reliable GWOT cost data include the previously cited long-standing deficiencies in DOD's financial management systems, the lack of a systematic process to ensure that data are correctly entered into those

accounting systems, inaccurately reported costs, and difficulties in properly categorizing costs. In at least one case, the reported costs may be materially overstated. Specifically, reported obligations for mobilized Army reservists in fiscal year 2004 were based primarily on estimates rather than actual information and differed from related DOD payroll information by as much as \$2.1 billion, or 30 percent of the amount DOD reported in its cost report. Initially, the Army could not support this difference or its reported GWOT military personnel obligations. Over the next several months, the Army and the Office of the Under Secretary of Defense (Comptroller) provided us with several possible, though sometimes inaccurate, explanations for this difference. Some explanations appeared valid while others did not and, taken together, they failed to fully account for the difference. Regarding DOD's accounting systems, over the years we and DOD have reported the following:

- We have testified on several occasions, including in November 2004 and June 2005, about long-standing weaknesses in DOD's financial management and related business processes and systems.
- In September 2004, DOD acknowledged that systematic deficiencies in its financial management systems and business processes result in its inability to collect and provide financial and performance information that is accurate, reliable, and timely.
- Still, DOD's Financial Management Regulation directs the services to capture contingency costs, which include GWOT costs, with their existing accounting systems and at the lowest possible level of organization.

Because of these problems, we have identified DOD's financial management as a high risk area since 1995. Regarding ensuring that the military services are correctly entering GWOT data into their accounting systems, for the most part the services and the Office of the Under Secretary of Defense (Comptroller) do not have a systematic process to review reported GWOT costs to ensure that they are accurate or to test their reliability. In one instance, we found that the Marine Corps and Navy were inadvertently double counting their reported costs each month from November 2004 through April 2005, totaling almost \$1.8 billion. The two services are taking steps to provide correct information beginning with the May 2005 cost report. Regarding properly categorizing costs, in our transaction testing we found that improperly categorized costs ranged from 5 to 30 percent of the dollar value of transactions that we and other audit

agencies reviewed. The large number of DOD cost categories—numbering in the thousands—and a lack of training for personnel coding the data contributed to incorrect categorizations. DOD has been responsive to recommendations that we and the Air Force Audit Agency have made in the past to improve cost reporting and has agreed to make a number of improvements. DOD has identified steps it plans to take to improve cost reporting on the basis of our current work. In discussing how the detailed cost data are used, the Office of the Under Secretary of Defense (Comptroller) told us that the detailed information is used for several purposes, including to make billion-dollar decisions in developing supplemental funding budget requests and to inform DOD leadership of detailed costs incurred for GWOT. However, as discussed above, as a result of the problems we identified in capturing and reporting GWOT costs, neither DOD nor Congress can (1) reliably know how much the war is costing and details on how appropriated funds are being spent or (2) have historical data useful in considering future funding needs.

Further complicating the data reliability issue is the fact that DOD has not updated its financial management policy to address GWOT spending. DOD's existing contingency operations' Financial Management Regulation (vol. 12, ch. 23) was developed and structured to manage the costs of small-scale contingencies and specifically excludes its use for wartime activities. Nonetheless, department and service officials are using this regulation to guide GWOT budgeting, cost reporting, and spending. Beginning in 1995, DOD's Financial Management Regulation established policies and procedures for estimating and reporting contingency costs. Historically, the financial management regulation generally guided the military services' spending on contingency operations⁷ by defining what constituted the incremental costs of contingency operations and by providing examples of eligible incremental costs.⁸ DOD's regulation is broad and has been

⁷ Volume 12, chapter 23 of DOD's Financial Management Regulation describes contingency operations as including, but not limited to, support for peace operations, major humanitarian assistance efforts, noncombatant evacuation operations, and international disaster relief efforts. DOD also refers to the operations in support of GWOT as contingency operations although, as discussed above, the regulation was developed and structured to manage the costs of small-scale contingencies and specifically excludes its use for wartime activities.

⁸ The term "incremental costs" means those directly attributable costs that would not have been incurred if it were not for the operation. Sections 230406 and 230902 of DOD's Financial Management Regulation 7000.14-R, vol. 12, ch. 23, Contingency Operations (January 2005) provide additional information on incremental costs.

interpreted at all levels of DOD and the services in formulating budgets and determining what should be reported as GWOT obligations. Although this is the most currently available statement of DOD policy, we believe that some of its specific provisions conflict with the needs of GWOT. One conflict concerns limitations on the use of supplemental funds for base support activities at home stations. The services have spent billions of dollars in supplemental funds on these activities. In the case of the Army, its Installation Management Agency, which manages all Army installations, obligated \$1.5 billion in fiscal year 2004 and has budgeted \$2.1 billion in fiscal year 2005 expressly for GWOT-related “home station” base support activities. Although some home station costs appear to be directly related to the war, the provisions of chapter 23, as currently written, administratively limit such costs to be budgeted or reported as incremental costs. At the same time, we found a number of reported incremental base operations costs that appear, at best, tangential to the support of GWOT. The conflicting provisions in chapter 23 indicate confusion over what is the DOD policy that senior DOD officials and service resource managers or unit commanders should use to manage the costs of the war. Without an updated policy, the military services and other DOD agencies cannot make informed judgments on the appropriate use of GWOT funding authorities. In response to our work, DOD has updated its regulation to address GWOT spending.

While individual commands have taken steps to control costs and DOD policy advises its officials of their financial management responsibilities to ensure the prudent use of contingency funding, the Office of the Under Secretary of Defense (Comptroller) has not systematically called for all commands involved in GWOT to take steps to control costs, set general parameters to guide cost-control efforts, and keep the Office informed of those steps and their success. For example, the commander of coalition forces in Iraq has unilaterally set a 10 percent cost-reduction target for fiscal year 2005, but the details are not widely known outside the command. GWOT spending has risen steadily since the attacks of September 11, 2001, as operations have expanded. From fiscal year 2002 through fiscal year 2004, reported costs rose from \$11 billion to \$71 billion annually and on the basis of reported fiscal year 2005 costs through May 2005, we project that they could reach \$71 billion again in fiscal year 2005. Current cost controls implemented by individual commands include acquisition review boards, command review of purchases, limits on some categories of spending, and a cost-reduction goal in Iraq. However, DOD’s policy does not go beyond advising DOD officials of their financial management responsibilities to ensure the prudent use of contingency

funding and provides no guidelines on steps that should be taken to control costs, particularly as operations mature, while ensuring mission accomplishment. Resource managers from a number of Army divisions that have deployed to Iraq or Afghanistan have told us that cost controls can be strengthened as operations mature. In discussing efforts to control costs with the Office of the Under Secretary of Defense (Comptroller), the view was expressed that, on the basis of varying combat situations, steps to control costs were best left to the individual commands. Currently, the Comptroller's office has no direct knowledge of the commands' cost-control efforts and has not asked to be kept informed of cost-control steps. We believe that more can be done and that absent a DOD-wide policy calling for systematic cost-control efforts, there is no assurance that successive commanders will emphasize cost control and that each commands' efforts will be equally comprehensive.

We are making recommendations to DOD to (1) undertake a series of steps to ensure that reported GWOT costs are reliable, (2) expand its financial management regulation for contingency operations to include contingencies as large as the current Global War on Terrorism, and (3) establish guidelines to control costs.

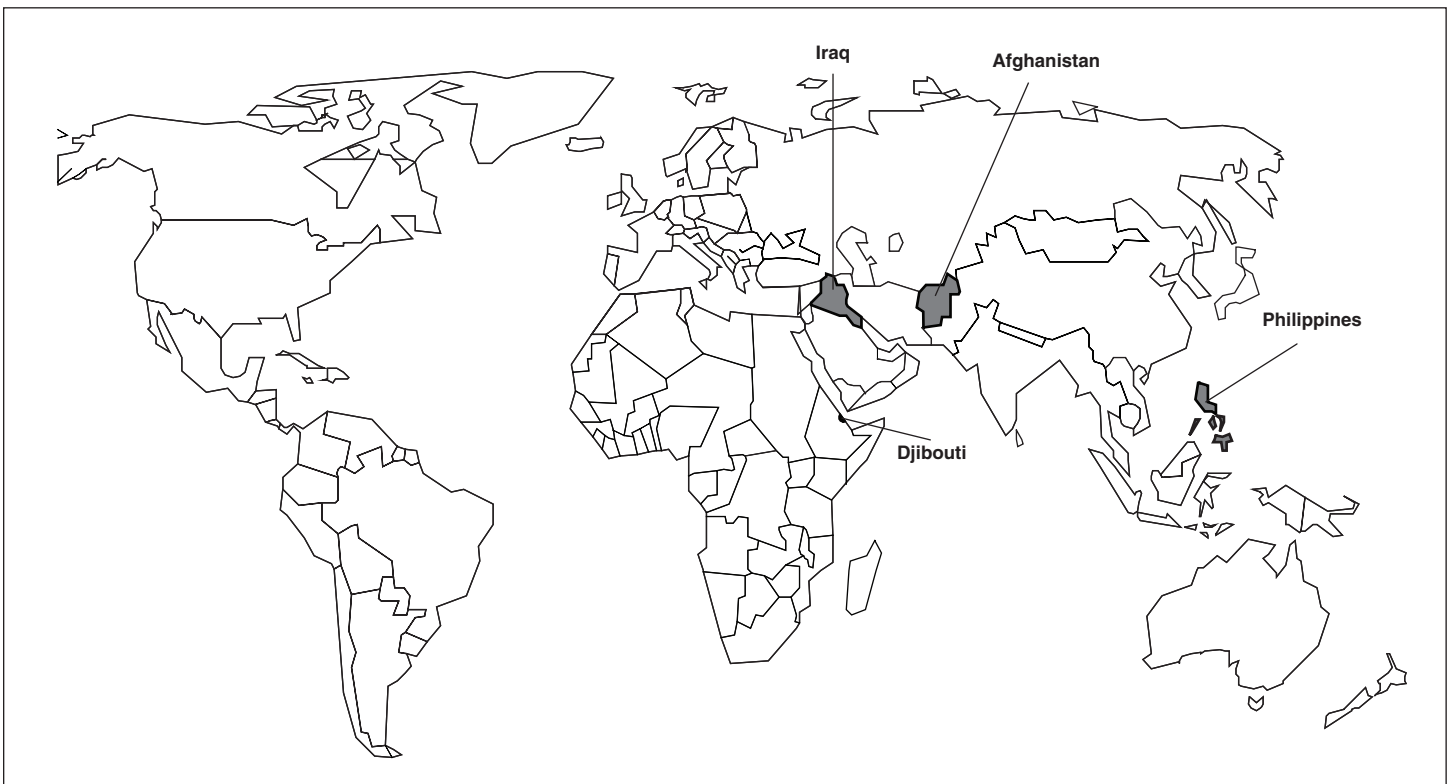
In official comments on a draft of this report, DOD agreed with all but one of our recommendations, stating that it generally agreed with the intent of the recommendations and outlined several immediate actions it has taken to improve procedures and strengthen the cost reports. DOD did not agree with our recommendation to have the Office of the Under Secretary of Defense (Comptroller) establish guidelines on cost controls, commenting that field commanders are the correct echelon to adopt and emphasize cost controls. We recognize that certain individual commands have done much to control costs and describe some of those efforts. However, other individual commands have done less to control costs. As a result, we continue to believe that more can be done and that absent DOD-wide guidelines on cost control efforts, there is no assurance that successive commanders will emphasize cost control and that each command's efforts will be equally comprehensive. Therefore we have retained the recommendation. The department's comments and our evaluation are discussed in detail in a later section of this report and the department's comments are printed in their entirety in appendix III.

Background

Following the terrorist attacks of September 11, 2001, the United States began military operations to combat terrorism both in the United States

and overseas. Operations to defend the United States from terrorist attacks are known as Operation Noble Eagle. Overseas operations to combat terrorism are known as Operation Enduring Freedom, which takes place principally in Afghanistan, and Operation Iraqi Freedom, which takes place in and around Iraq. Figure 1 shows the primary locations where U.S. forces conducted operations to support GWOT in fiscal year 2004.

Figure 1: Locations of DOD's Fiscal Year 2004 Global War on Terrorism Operations



Source: GAO.

Since September 11, 2001, DOD reports that it obligated \$191 billion through May 2005 to conduct GWOT. Factors that affect the cost of the war include the number of deployed personnel, the special pays and allowances that deployed personnel receive, the additional pay that mobilized reservists receive when on active duty, the pace of operations, the extent to which facilities have to be built to house and protect the deployed forces, and the distance to the theater. Congress has enacted a series of

supplemental appropriation acts, beginning in September 2001, to fund the war. These supplemental appropriation acts have included funding authority for operations in Afghanistan and Iraq, homeland security, and other global counterterrorism military and intelligence operations.

The costs of contingency operations are referred to as “incremental costs” and are directly attributable costs that would not have been incurred, were it not for the operation. Specifically, the costs are above and beyond baseline training, operations, and personnel costs. Incremental costs include the pay of mobilized reservists as well as the special pays and allowances of deployed personnel, such as imminent danger pay and foreign duty pay for those personnel serving in Operation Iraqi Freedom and Operation Enduring Freedom, the cost of transporting personnel and materiel to the theater of operation and supporting them upon arrival, and the operating cost of equipment, such as vehicles and aircraft, among many other costs. Costs that are incurred regardless of whether there is a contingency operation, such as the base pay of active duty military personnel, are not considered incremental.

DOD tracks the obligations incurred to support GWOT and produces a monthly cost report, which is distributed throughout the department and used by senior DOD leadership in discussing the cost of the war. It is also used in formulating future budget requests to fund GWOT. The monthly report, which, as noted earlier, was titled the *Terrorist Response Cost Report* until January 2005, when it was renamed the *Supplemental and Cost of War Execution Report*, identifies the monthly and cumulative incremental GWOT obligations. DOD reports the costs by service, defense agency, contingency operation, and appropriation. On October 1, 1998, DOD implemented a standard contingency cost breakdown structure to improve contingency cost reporting consistency between multiple services and DOD agencies. Furthermore, this cost breakdown structure was also to facilitate future efforts to understand and interpret differences between estimated and actual costs. DOD Financial Management Regulation 7000.14-R, volume 12, chapter 23, generally establishes financial policy and procedures related to DOD contingency operations.⁹ The regulation incorporates the common cost categories and multiple subcategories,

⁹ As discussed later in this report, chapter 23 states that it does not address wartime activities or the unique circumstances that require U.S. military forces to be placed on a wartime footing. Despite this express limitation, DOD and service officials are using chapter 23 to guide GWOT budgeting, cost reporting, and spending in the absence of other guidance.

which were established in 1998 and updated in January 2005, that are used to report DOD's monthly GWOT costs.

We previously reported our concerns about the reliability of reported contingency operations cost data. Specifically, our 1996 report on the reliability of reported contingency operations costs found inaccuracies representing about 7 percent of the \$4.1 billion in costs reported in fiscal years 1994 and 1995, which we believe was indicative of a material weakness in the accounting systems.¹⁰ These included the following:

- \$104 million in overstated costs, primarily due to the failure of the Air Force (\$67 million) and the Navy (\$3 million) to adjust reported flying hour costs to reflect the value of free fuel being received at that time.
- The services' failure to adjust reported costs to reflect normal operating and training costs. For example, one Army command reported operating costs of \$11 million that were not incurred because of deployments.
- The services' failure to report or fully report \$171 million in understated costs, including some military personnel costs such as imminent danger pay and family separation pay, munitions the Navy used, and Air Force mobility equipment and munitions.

We further reported that it was not feasible to examine all reported costs and supporting data and that our results were not statistically projectable. Consequently, we were unable to conclude, on the whole, if reported costs were overstated or understated. At that time, we recommended that DOD clarify existing guidance for reporting costs, which DOD agreed to do. Over the years DOD and the services have adopted a number of our recommendations to improve their guidance for spending on contingency operations.

Reliability of DOD's Reported Costs Is Unknown

We found numerous problems in DOD's processes for recording and reporting costs for the Global War on Terrorism, raising significant concerns about the overall reliability of DOD's reported cost data. As a result, neither DOD nor Congress (1) can reliably know how much the war is costing and details on how appropriated funds are being spent or (2)

¹⁰ GAO, *Contingency Operations: DOD's Reported Costs Contain Significant Inaccuracies*, GAO/NSIAD-96-115 (Washington, D.C.: May 17, 1996).

have historical data useful in considering future funding needs. On the basis of our work, DOD is taking steps to improve its cost reporting. However, as was the case in our 1996 report, because it was not feasible to examine all reported costs and significant data reliability problems existed, we were not able to determine the extent that total costs were misstated. DOD policy requires that controls, accounting systems, and procedures provide, in financial records, the proper identification and recording of costs incurred in supporting contingency operations. However, our examination of DOD's reported costs in support of GWOT found a number of problems affecting the accuracy of reported costs. These problems included long-standing deficiencies in DOD's financial management systems and business processes, reported military personnel obligations that do not match payroll records, incorrectly categorizing operation and maintenance obligations, the use of estimates instead of actual information, and a lack of supporting documentation. Problems contributing to DOD's challenges in reporting reliable GWOT cost data include the previously cited long-standing deficiencies in DOD's financial management systems, the lack of a systematic process to ensure that data are correct, the failure to use actual data when available, and a large number of cost categories and little training on how to apply them.

DOD's Financial Management Regulation Addresses the Importance of Accurately Reporting Obligations

DOD's Financial Management Regulation (FMR) emphasizes the importance of accurate cost reporting. Volume 6A, chapter 2 (sec. 020201) of DOD's FMR establishes the general financial responsibilities for DOD components. Components are responsible for the following:

- ensuring the accuracy, completeness, timeliness, and documentary support for all data generated by the customer and input into finance and accounting systems;
- or submitted to the Defense Finance and Accounting Service for input and/or recording in the finance and accounting systems and inclusion in financial reports;
- establishing appropriate internal controls to ensure the accuracy of data provided to the DFAS; and
- reviewing all reports provided by the DFAS to assess the accuracy of the financial information being reported.

Chapter 2 further states in section 020202 that DOD components must establish appropriate internal controls to ensure that data provided to the DFAS that are recorded in the accounting system and subsequently used in financial reports are accurate, complete, and supportable. Among the requirements, the regulation states that before submitting transactions, DOD components must edit all transactions, hard copy and electronic, for accuracy, e.g., so that the transaction is identified correctly in terms of the type of transaction, reported quantity, dollar amount, and other data.

In addition to volume 6A, chapter 2, volume 3, chapter 8 of the FMR has several provisions that require funds holders¹¹ to take steps to ensure that transactions have been entered accurately. Section 080401 requires that funds holders conduct a triannual review of commitments and obligations. During these reviews, officials are to review commitment and obligation transactions for timeliness, accuracy, and completeness. The requirement applies to all appropriations and funds of all DOD components. Section 080403 establishes the responsibility of conducting reviews of outstanding commitments and unliquidated obligations to funds holders. According to the FMR, this is true regardless of whether the funds holders or the accounting office actually records the commitments or obligations in the official accounting records. This responsibility is placed on the funds holders because the funds holder initiates those actions that result in commitments and obligations and, therefore, is in the best position to determine the accuracy and the status of such transactions.

Finally, volume 12, chapter 23 of the FMR establishes policies and procedures for budgeting and cost reporting for contingency operations and states that DOD policy requires that controls, accounting systems, and procedures provide, in financial records, proper identification and recording of costs incurred in supporting contingency operations.

Concerns Regarding the Reliability of Reported GWOT Costs Stem from a Variety of Factors

Our work has identified a number of concerns regarding the reliability of reported GWOT costs. These include deficiencies in DOD's financial management systems, discrepancies between some reported military personnel obligations and DOD payroll information, incorrectly categorized operation and maintenance costs, the use of estimates instead of actual information, and a lack of supporting documentation.

¹¹ Funds holders are DOD officials who receive a documented administrative subdivision of funds through their funding chain of command or other government departments.

DOD Uses Its Existing Financial Management Systems and Business Processes to Record GWOT Costs, but These Systems Have Long-standing Deficiencies

Because DOD's accounting systems cannot directly capture GWOT costs, the department's overall GWOT cost reporting is based on the military services' reports of obligations. Volume 12, chapter 23 of the FMR requires that the DOD components collect and report applicable costs related to contingency operations. Chapter 23 also requires that the services capture their obligations in their existing accounting systems and at the lowest possible level of organization.

However, DOD has long-standing deficiencies in its existing financial management systems and business processes. As recently as September 2004, DOD acknowledged that agencywide financial statements were not completely reliable as a result of inadequately designed systems. The department reported that systemic deficiencies in its financial management systems and business processes result in its inability to collect and report financial and performance information that is accurate, reliable, and timely. In March 2004, the Under Secretary of Defense (Comptroller) stated in a memo that DOD's fiscal year 2004 agencywide financial statements would not substantially conform to generally accepted accounting principles. The department acknowledged that although it has made progress in its efforts to resolve financial management shortfalls, its financial management systems currently do not fully comply with the applicable requirements.

For years we have reported on DOD's financial management deficiencies. In 1995 we first designated DOD financial management as an area of high risk. We concluded that DOD's financial management deficiencies adversely affect the department's ability to control costs, ensure basic accountability, anticipate future costs and claims on the budget, measure performance, maintain funds control, prevent fraud, and address pressing management issues.¹² From 1995 through 2005, we continued to report on deficiencies in DOD's financial management processes. In November 2004, we testified that recent audits and investigations by our and DOD's auditors continue to confirm the existence of pervasive weaknesses in DOD's financial and related business processes and systems.¹³ We found that adverse conditions included discrepancies in military pay, logistical support such as duplicate supply requisitions, and data reliability needed by Congress and DOD to make sound sourcing decisions. Most recently, in

¹² GAO, *High-Risk Series: An Update*, [GAO-05-207](#) (Washington, D.C.: January 2005).

¹³ GAO, *Department of Defense: Further Actions Are Needed to Effectively Address Business Management Problems and Overcome Key Business Transformation Challenges*, [GAO-05-140T](#) (Washington, D.C.: Nov. 18, 2004).

June 2005 we testified that long-standing weaknesses in DOD's financial management and related business processes and systems have (1) resulted in a lack of reliable information needed to make sound decisions and report on the status of DOD activities, including the accountability of assets, through financial and other reports to Congress and DOD decision makers; (2) hindered its operational efficiency; (3) adversely affected mission performance; and (4) left the department vulnerable to fraud, waste, and abuse.¹⁴

Some Reported Military Personnel Obligations Are Not Consistent with Related Payroll Information

The Army did not have a reasonable and reliable process to identify and report almost \$12 billion of GWOT military personnel obligations in fiscal year 2004. Instead of using related DOD payroll information, the Army based the GWOT military personnel obligations used in the GWOT cost report primarily on its fiscal year 2004 obligation plan and, in the end, forced, or "plugged," obligations to match available supplemental budget authority. Effectively, the Army was reporting back to Congress exactly what it had appropriated. Army officials were unable to readily explain the process for identifying and reporting GWOT military personnel obligations. Specifically, the Army Budget Office lacked formal procedures to guide the monthly reporting of GWOT military personnel obligations to DOD and a process to ensure management's review of the reported amounts. Army Budget Office officials stated that these problems were exacerbated by staff losses in the September 11 terrorist attack on the Pentagon, personnel turnover, and hiring difficulties.

Our analysis showed that obligations associated with Army military personnel in the monthly GWOT cost report were not consistent with related DOD payroll information, and the use of planned obligations instead of actual payroll information might have resulted in reported Army military personnel GWOT obligations being materially overstated. For fiscal year 2004, our analysis of the more than \$7.1 billion in incremental military personnel obligations listed in the GWOT cost report category for mobilized Army reserve-component soldiers identified as much as \$2.1 billion of reported obligations in excess of related DOD payroll information. Initially, the Army could not support this difference or its reported GWOT military personnel obligations. Over the next several months, the Army and the Office of the Under Secretary of Defense

¹⁴ GAO, *DOD Business Transformation: Sustained Leadership Needed to Address Long-standing Financial and Business Management Problems*, [GAO-05-723T](#) (Washington, D.C.: June 2005).

(Comptroller) provided us with several possible, though sometimes inaccurate, explanations for this difference. Some explanations appeared valid while others did not and, taken together, they failed to fully account for the difference. For example, the Army Budget Office stated that a portion of the difference was attributable to retirement pay and retirement health care accruals. We found that the retirement health care accrual did not result in incremental costs and, therefore, was not a valid explanation for the difference. However, mobilized reserve-component personnel receive an increase in retirement pay benefits over nonmobilized reservists and, therefore, DOD incurs incremental costs related to this benefit. According to the Army, the retirement pay accrual represents part of the difference, and it reported this amount at \$824 million. This information was provided too late in our audit to assess its accuracy and completeness. Further details on our review of GWOT obligations for Army military personnel are included in appendix II.

In addition to examining the obligations for mobilized Army reservists, we also examined reported imminent danger pay and found wide monthly swings and little correlation with the numbers of deployed personnel. Imminent danger pay relates directly to the number of military personnel deployed to eligible areas. Beginning on October 1, 2002, all military personnel—both Active and Reserve Component—in areas designated as eligible for imminent danger pay receive \$225 per month for each month for which they qualify for such pay. Eligible areas include, but are not limited to, the countries of Iraq, Afghanistan, Kuwait, Qatar, Bahrain, and Saudi Arabia. The monthly amount is payable in full without being prorated or reduced, for each month, during any part of which a service member qualifies and regardless of the actual period of time served on active or inactive duty during that month.

Month-to-month changes in reported imminent danger pay obligations for GWOT should be consistent with the number of deployed forces in eligible areas. However, as shown in table 1, which depicts the amounts reported for DOD as a whole and the implied number of people who should be receiving the pay on the basis of dividing the amount per month—\$225—into the reported obligations, there are wide monthly swings in the number of deployed personnel, based on the amount of reported imminent danger pay, that do not seem to correlate to the actual numbers of deployed personnel. For example, the reported imminent danger pay suggests that 173,000 personnel were deployed to support GWOT in July 2004 and that the number of personnel rose to more than 1 million in August 2004 and then declined to 264,000 in September 2004 and 61,000 in October 2004.

According to DOD, about 221,300 personnel from all the military services were deployed throughout the region in December 2004 to support Operation Enduring Freedom and Operation Iraqi Freedom, including deployed personnel in Iraq, Afghanistan, and Kuwait.

Table 1: Comparison of Reported DOD-Wide Imminent Danger Pay and Implied Number of Deployed Personnel, April 2004-April 2005

Month	Reported imminent danger pay (dollars in thousands)	Implied number of deployed personnel (numbers in thousands)
April 2004	\$38,186	170
May 2004	46,106	205
June 2004	37,054	165
July 2004	38,893	173
August 2004	231,090	1,027
September 2004	59,500	264
October 2004	13,713	61
November 2004	69,699	310
December 2004	33,228	148
January 2005	41,499	184
February 2005	127,769	568
March 2005	48,659	216
April 2005	(933)	(4)

Source: GAO's analysis of DOD's GWOT data.

In continuing discussions of our analysis, Army Budget Office officials provided additional detail on the Army's reported imminent danger pay obligations, which comprise the bulk of DOD-wide reported imminent danger pay obligations. With respect to the August 2004 reported imminent danger pay, which was by far the largest reported amount from April 2004 through April 2005, Army Budget Office officials said that their reported portion—\$217 million—of the DOD-wide \$231 million was in error owing to a misplaced decimal and that the Army's August 2004 imminent danger pay should have been reported as \$21 million. These officials attributed the month-to-month fluctuations in reported imminent danger pay to the lack of timeliness and consistency in adjusting costs between those baseline and GWOT amounts. Beginning in June 2005, the Army said that it adopted a new process that uses accounting data, with the actual count of deployed forces as a validation checkpoint.

Operation and Maintenance Obligations Are Not Always Properly Categorized

Obligations are the foundation of all GWOT cost reporting. Operation and maintenance obligations in support of GWOT represent tens of thousands, if not hundreds of thousands, of individual transactions ranging in value from 1 penny to millions of dollars. When obligations are incurred, the services enter them into their accounting systems using accounting codes. For example, an Army budget activity, such as an installation or unit, initially obligates funds for acquired goods and services by using the Standard Army Accounting Classification Code. An obligation entry includes information on the funding source; the operational mission, such as Operation Iraqi Freedom; and the category of cost. The cost categories are established by the services. In the Army, the cost category is called the element of resource (EOR).

Because DOD's Financial Management Regulation volume 12, chapter 23 requires that the services capture costs within their existing accounting systems and report them in a common cost format known as the cost-breakdown structure, the services must translate—or “cross-walk”—their obligations into 1 of 55 cost categories in the cost breakdown structure established by the Office of the Under Secretary of Defense (Comptroller) and used in the monthly GWOT cost reports. For the Army, this involves translating obligations recorded by EOR into the chapter 23 GWOT cost categories. To meet DOD's reporting requirements, each month Army resource management officials must cross-walk costs in the EOR categories into the GWOT cost categories, sometimes manually. For example, in fiscal year 2004, ARCENT resource management officials manually cross-walked 266 EORs into 14 GWOT cost categories.

If obligations are not identified in the correct cost category in the services' accounting system, they can affect the overall reliability of DOD's GWOT cost reporting. In the Army, ARCENT resource management officials told us that on the basis of their reviews of GWOT obligations, they had confidence in the accuracy of the total dollar obligations as identified in the GWOT cost report but felt that obligations were being incorrectly categorized. At two Army divisions, we observed obligations being assigned to the wrong EOR. In our limited testing of transactions at one of the divisions, which deployed to Iraq as part of Operation Iraqi Freedom, we found errors in assigning costs to the correct EOR, which resulted in overstated costs in some categories and understated costs in others. We reviewed 31 transactions valued at \$15 million and found coding errors in 11, or 35 percent of the transactions, valued at \$770,134, or 5 percent of the amount we reviewed. One example of an error we found involved \$383,147 in obligations for communications services, which was entered into the

division's financial management systems under an EOR that corresponded with DOD's GWOT cost report's category of Other Services and Miscellaneous Contracts. A senior division resource management official stated that it would have been better to use an EOR that corresponded with the Facilities/Base Support category. As a result, the Other Services and Miscellaneous Contracts category was overstated by \$383,147 while the Facilities/Base Support cost category was understated by the same amount. At the other Army division, which deployed to Afghanistan as part of Operation Enduring Freedom, we also found errors in assigning costs to the correct EOR that resulted in overstated costs in some categories and understated costs in others. We reviewed 146 of 237 transactions valued at more than \$14 million and found coding errors in 32 transactions, or 22 percent of the transactions, valued at more than \$4 million, or 30 percent of the amount we reviewed. For example, the division obligated \$6,995 for a printer, which it originally coded with the EOR for automated data-processing equipment. However, once the purchase request reached the contracting office, it was recoded as general supplies and not as automated data-processing equipment. After reviewing this example and others, a senior resource management official at the division concurred with our assessment of these coding errors.

In related reporting,¹⁵ we have raised concerns about reported equipment reconstitution costs.¹⁶ Reconstitution is one of the cost categories in DOD's GWOT cost report. We reported that DOD has not accurately tracked and reported its reconstitution costs because the services are unable to segregate equipment reconstitution from other maintenance requirements, as required. In the case of the Air Force, we reported that it does not break out its equipment reconstitution obligations from other GWOT obligations in the cost report and was reporting no reconstitution costs. In further discussions Air Force officials told us that their reconstitution costs were being captured in their flying hour (operating tempo) costs. Regarding the Army and the Navy, we reported that equipment reconstitution obligations reported by those two services are likely overstated because (1) the Army includes costs other than those required for reconstitution and (2) the Navy is unable to segregate regular

¹⁵ GAO, *Defense Management: Processes to Estimate and Track Equipment Reconstitution Costs Can Be Improved*, [GAO-05-293](#) (Washington, D.C.: May 5, 2005).

¹⁶ Reconstitution is the process of returning equipment after a deployment is completed to a condition that enables the unit to perform required missions and achieved required readiness levels.

maintenance from reconstitution maintenance for ship overhauls. We recommended and DOD agreed to direct the services to develop comprehensive and consistent methods for tracking and reporting equipment reconstitution obligations. In agreeing with our recommendation, the Office of the Under Secretary of Defense (Comptroller) said that the office had already revised its financial management regulation to improve the reporting of equipment reconstitution, but we observed that until additional actions are taken, such as improving the services' financial management systems' ability to track obligations, our recommendation will not be fully implemented. Beginning in October 2004, DOD revised its reconstitution cost category to include four subcategories, and the Air Force is reporting reconstitution obligations in two of those categories.

In addition to the concerns with properly categorizing costs that we identified, officials from the Army Budget Office believe that the Army's operating support obligation data are reliable at the broad category levels (personnel support, operating support, and transportation), but distribution within categories is likely to contain errors.¹⁷ These officials said that the Army is taking two immediate actions. First, it has refined its EOR to cost breakdown structure code cross-walk. The Army has specifically identified approximately 135 EORs that directly associate with the cost breakdown structure. Additionally, Army officials said that they have added an additional data element (the Functional Cost Account code, which describes the programmatic function), which will provide one more reference point to validate entries. This revision was effective with the June 2005 reporting cycle. Second, Army officials said that the Army is developing a standard operating procedure with a follow-on "train the trainers" program for Army-wide distribution. It will prescribe the methodology for capturing GWOT execution data from the accounting systems and source documents. This is a longer-term solution that the Army believes should contribute materially to improved data entry at the originating organizational levels.

The Air Force Audit Agency, in a June 2005 report on Air Force GWOT spending, also identified errors in properly categorizing GWOT costs.¹⁸

¹⁷ Personnel support, operating support, and transportation costs are subcategories in the DOD GWOT cost reports.

¹⁸ Air Force Audit Agency, *Global War on Terrorism Funds Management*, F2005-0011-FB1000 (June 20, 2005).

Specifically, the audit agency found that in fiscal year 2003, 159 of 923 transactions it reviewed, or about 17 percent of GWOT transactions valued at more than \$163 million, were inaccurately recorded in the Air Force's accounting system. The report stated that this condition occurred because resource management officials were uncertain of which costs were GWOT related and because reported costs were not compared with documentation as required by DOD's financial management regulation. The audit agency concluded that inaccurate cost reporting may lead to questionable cost-of-war information, distorted command resource allocation and spending plans, and unreliable summary DOD financial reports. The audit agency made several recommendations, including one that cognizant Air Force officials review transaction data and notify accounting liaison office personnel of inaccurate entries monthly, and one that the liaison office personnel request data correction from appropriate accounting offices. The Air Force agreed with the recommendations and stated that it would make the recommended changes. In advance of the report's issuance, in a March 2, 2005, memo, the Assistant Secretary of the Air Force, Financial Management and Comptroller, addressed and agreed to revise guidance to emphasize increased management oversight over transaction approval, accuracy, and documentation completeness.

Some GWOT Cost Data Are Based on Estimates

Because ships at sea incur the same types of costs whether in normal forward-deployed operations or in support of GWOT, the Navy allocates the costs between normal and GWOT operating costs. The Navy's major commands use a variety of approaches for allocating these costs. For example, we found that the Atlantic and Pacific surface commands, which are responsible for managing the Navy's surface ships, use two different approaches in order to allocate a portion of each ship's normal operating costs to GWOT for those ships that have been used to support GWOT missions. The Atlantic Fleet uses an approach whereby the portion of a ship's normal operating costs becomes GWOT costs when (1) the ship has been engaged in a GWOT mission during that month and (2) the ship exceeds its monthly baseline budget. Once the baseline budget has been exceeded, the additional cost above that baseline is considered incremental and is recorded as a GWOT cost. The Pacific Fleet uses a different approach, which utilizes a model that has evolved over many years. This model takes a number of factors into consideration in order to calculate how much of a ship's costs should be allocated to GWOT. These factors include a running 3-year average of the costs of operating each individual ship, the cost of maintaining that general class of ships, and whether the ship has performed GWOT missions. This model calculates an amount for each ship that should be recorded as a GWOT cost.

Documentation Is Not Always Available

Documentation related to goods and services purchased in support of the Global War on Terrorism is not always available. Without documentation, one cannot attest to the reliability and applicability of reported costs to GWOT. At one of the Marine Expeditionary Forces, we were able to link reported costs to the supporting documentation for contractual purchases. However, when we compared a limited number of documents from the ARCENT document register with documentation controlled by DFAS-Rome, New York, we found instances where (1) document register descriptions did not match invoices maintained by DFAS and (2) invoices did not match dollar amounts associated with the ARCENT documentation number. For example, one item we identified was listed in the document register as a purchase of unit coins for \$200,000. However, we found no evidence indicating that the \$200,000 was actually obligated for the purchase of unit coins. The EOR listed in the document register indicated that the item was for furniture. When we reviewed the invoices, we found that the documentation supported the purchase of furniture for \$18,959 but nothing for unit coins or for \$200,000. In another example, a purchase was listed in the document register for \$21,900 toward an operational fund. When we reviewed the invoice, we found that the documentation supported the purchase of translator services for \$3,950.

Several audit agencies also had mixed success with linking reported GWOT costs to supporting documentation. In many cases, documentation was not available or the available documentation was not sufficient enough to determine the applicability of costs, as shown in the following examples:

- The Air Force Audit Agency, in its previously cited June 2005 report on Air Force GWOT funds management, reported that financial managers could not provide documentation to support approximately 14 percent of 1,037 fiscal year 2003 transactions reviewed. The transactions had an absolute value of more than \$16 million. The audit agency reported that the inability to provide documentation occurred for three primary reasons: (1) Air Force financial managers did not require funds holders and resource advisors to maintain supporting documents for a minimum of 24 months, (2) comptrollers did not provide funds holders and resource managers with documentation requirements training, and (3) Air Force organizations did not always comply with records management guidance. The agency concluded that maintaining documentation provides an audit trail and assurance that Air Force personnel properly expended these funds. The agency made several recommendations to strengthen controls over documentation, which the Air Force agreed to implement. In the previously cited March 2,

2005, memo issued in advance of the issuance of the Air Force Audit Agency's report, the Assistant Secretary of the Air Force, Financial Management and Comptroller also addressed this finding and agreed to revise Air Force guidance to require funds holders and resource advisors to maintain supporting documentation for a minimum of 24 months for all financial transactions, modify the Web-based Resource Advisor Tutorial to highlight the need for funds holders and resource advisors to maintain documentation for financial transactions, and to require comptroller personnel to include documentation requirements in all funds holders' training and resource advisor training.

- The Naval Audit Service reported that it could not find supporting documentation for 11 percent of the reported fiscal year 2002 Operation Enduring Freedom costs for the 14 units it reviewed.¹⁹ The Naval Audit Service found that more than half of these unsupported costs resulted from one unit's not retaining documentation over a 2-month period. This same unit's costs for other months reviewed were well documented; so, overall, the audit service was not overly concerned with the 2-month gap. For the other units reviewed, documentation was available, but the units could not always identify the portion of those items reported as being incremental costs of Operation Enduring Freedom. The Naval Audit Service concluded that internal controls were adequate and that an expanded review was not warranted at that time. It made no recommendations.
- The U.S. Army Audit Agency found that 58, or about 2 percent, of the 2,751 transactions it reviewed for fiscal year 2003 valued at \$37.4 million lacked supporting documentation.²⁰ As a consequence, the agency was unable to determine if the transactions were valid. The Army Audit Agency also discovered documentation problems involving government purchase cards. These problems included a lack of documentation authorizing purchases and inadequate justification of purchases to ensure that they were related to contingency operations. The agency concluded that without adequate justifications and support to ensure that the transactions are related to contingency operations, these types of obligations appear questionable. The agency recommended that

¹⁹ Department of the Navy, Naval Audit Service, *Purchase Justifications at Department of the Navy Shore Activities* (Washington Navy Yard, D.C.: 2003).

²⁰ U.S. Army Audit Agency, *FY 03 Supplemental Funds and Cash Flow* (Alexandria, Va.: 2004).

Army financial management leadership emphasize the consistent application of guidance for justifying and documenting contingency operations requirements, and the Army financial management leadership said that it would emphasize the need to fully justify and document expenditures as related contingency operations and that it had already completed or will complete action through the distribution of additional guidance by December 2005.

Several Factors Contribute to Data Reliability Concerns

Data reliability is affected by the previously discussed long-standing deficiencies in DOD's financial management systems, which affect the ability to capture costs in a completely systematic manner. This is compounded by the lack of a systematic process for ensuring that the data in the GWOT cost reports are accurate, less-than-adequate management oversight on the preparation and accuracy of the reports, the failure to use actual data when available, and a large number of cost categories and little training on how to apply them.

There Is No Systematic Process to Ensure That GWOT Data Are Accurately Recorded and Ensure Adequate Management Oversight

For the most part, DOD does not have a systematic process to review reported GWOT costs to ensure that they are accurate. To ensure the accuracy of DOD's GWOT cost reports, the military services and the Office of the Under Secretary of Defense (Comptroller) compare each new month's cost report with previous months' reports to ascertain if there are large variances from previous reports and, if so, determine what caused them and make revisions as appropriate. For GWOT cost reporting, individual obligation data that are coded as being in support of GWOT are aggregated at successively higher command levels and sent through the services' chain of command. At each command level, financial management officials review costs for large anomalies. The services take different approaches to ensure that GWOT obligation data are correctly recorded. For example, the Army gains assurance that reported obligations are accurate by reviewing the monthly obligation data provided by units. However, the Army does not follow specific guidelines to determine the extent to which obligations are accurately reported. For example, U.S. Army Forces Command and ARCENT financial management officials ensure that reported obligations are correct by using historical knowledge of cost trends to review obligation reports for large anomalies. If a large anomaly is identified, it is further investigated to determine the cause and resolve any differences. However, the two commands do not have specific criteria to determine how large an anomaly has to be before it is investigated. As a result, financial management officials at the commands use their judgment to determine which anomalies to investigate. The Navy

also reviews GWOT cost data for anomalies but lacks a systematic method for gaining assurance that the data are reliable. According to the Financial Management and Budget official who manages the process, there is no systematic approach for reviewing the submissions received from each of the claimants.

The Marine Corps has adopted additional measures to gain further assurance that its GWOT obligations are accurately reported. For example, resource management officials at one Marine Expeditionary Force told us that they periodically visit subordinate units to reaffirm that these units are following Marine Corps standard operating procedures for entering and recording obligation data. During these visits, officials use a checklist that highlights areas that the visiting officials should emphasize. These areas include assessing the unit's knowledge of Marine Corps policies and procedures, reviewing purchases made by the unit, and checking to ensure that the unit correctly entered obligations into the Marine Corps' accounting system. Marine Expeditionary Force resource management officials told us that this process plays an important role in ensuring that GWOT obligation data are reliable.

Once the services complete their review of GWOT obligations they submit their obligation reports to DFAS,²¹ which aggregates the individual submissions into the monthly GWOT cost report. The Office of the Under Secretary of Defense (Comptroller) gains assurance that the services' reported obligations are reliable by reviewing the monthly DFAS cost reports for anomalies. If a discrepancy is identified, the Comptroller's office contacts the responsible DOD component, attempts to determine reasons for the discrepancy, and directs that necessary corrections be made before distributing the cost report within DOD.

Despite the efforts to review reported costs, there is less-than-adequate management oversight on the preparation and accuracy of the reports. We found instances where the services did not identify wide swings in monthly costs, such as the swings discussed earlier in imminent danger pay in the GWOT cost reports for DOD as a whole, as well as errors in the overall GWOT cost reports that amounted to hundreds of millions of dollars monthly. Specifically, in reviewing the Navy's and Marine Corps' fiscal year 2005 operation and maintenance and investment GWOT obligations as part

²¹ DFAS is responsible for consolidating all DOD contingency costs and for the billing and reimbursement distribution functions in support of contingency operations.

of a separate effort, we found that the obligations reported in DOD's summary GWOT cost report were inadvertently being overstated by hundreds of millions of dollars monthly between the November 2004 and the April 2005 cost reports. In total, we found that the two services overstated their obligations during that period by almost \$1.8 billion—\$1.5 billion in the case of the Marine Corps and \$300 million in the case of the Navy. Each month DOD prepares a separate report for each of the appropriations acts that are used to provide funding authority to support GWOT and an overall summary cost report. In discussions with Marine Corps and Navy budget officials, it was determined that operation and maintenance and investment obligations associated with funding authority provided through title IX of the fiscal year 2005 Defense Appropriations Act were inadvertently being double counted in the GWOT cost report: once in the title IX report and once again in the report on funding authority provided in other fiscal year 2005 appropriations acts, resulting in inflated figures in the summary report. These reporting problems were present in all of the GWOT cost reports from November 2004 through April 2005. Once this matter came to light, Navy and Marine Corps officials took action to reflect the accurate obligations for the title IX and other fiscal year 2005 appropriations reports. The May 2005 report reflects the corrected cumulative obligations through May 2005.

Volume 3, chapter 8 of DOD's Financial Management Regulation requires that steps be taken to verify that transactions are correctly entered into the services' accounting systems by comparing financial transactions with supporting documents. However, as discussed earlier, in a detailed review of fiscal year 2003 GWOT obligations, the Air Force Audit Agency found that in addition to not properly categorizing costs, officials at 16 of 29 locations visited failed to verify that 159 of 923 transactions, or 17 percent of the transactions the agency reviewed, were accurately entered into the Air Force's financial accounting system. The audit agency said that this condition occurred because funds holders were uncertain of which costs should be coded as GWOT expenditures and did not compare financial transactions with supporting documents as required by DOD's financial management regulation. The audit agency concluded that as a result, financial managers may inadvertently provide questionable "cost of war" information when data are inaccurately processed in the system. Furthermore, command resource allocation and spending plans may be distorted by faulty data. Finally, summary DOD financial reports may be unreliable. The audit agency made recommendations to the Air Force to review transaction data; correct inaccurate data; and develop, publish, and

implement guidelines on the appropriate use of GWOT cost codes, which the Air Force agreed to do.

Estimated Obligations Are Used Instead of Actual Payroll Information

As previously discussed, in reviewing the Army's military personnel GWOT obligations for fiscal year 2004, we found that the reported amounts for mobilized Army reservists were inconsistent with related DOD payroll information. We found that the Army's military personnel GWOT obligations reported in the GWOT cost report were based primarily on monthly estimates in the Army obligation plan rather than actual payroll information.

The practice of using estimates in reporting military personnel costs related to contingency operations rather than payroll data has been ongoing for almost a decade. In our previously cited 1996 report on the reliability of contingency operations costs, we reported that the services used estimates rather than actual data to derive incremental personnel costs for reservists called to active duty in contingency operations. We also reported that the services used estimates in reporting the special pays and allowances, such as imminent danger pay, which all military personnel become eligible for during deployments, and that they did not reconcile those costs to actual payroll data. At that time, we reported that DOD had plans under way to link its payroll and personnel systems, which would allow the extraction of actual cost data. Until the two systems were linked, we reported that it would not be possible to test the accuracy of estimated costs. As of June 2005, more than 9 years after our earlier report, at least one service, the Army, was still not using actual payroll information to report its GWOT military personnel obligations. Army officials advised us in July 2005 that, on the basis of our findings on reported military personnel obligations, they will now use related DOD payroll information where applicable.

Assigning Correct EORs Are Complicated by a Number of Factors

As also discussed earlier, if obligations are not categorized in the correct cost categories in the services' accounting system, it can affect the overall reliability of DOD's GWOT cost reporting. The large number of EORs used by Army units to assign costs to categories, literally in the thousands, complicates properly categorizing GWOT obligations. We found that the large number of EORs encourages Army units to adopt shortcuts to simplify categorization, which can result in incorrectly categorizing obligations. For example, a resource management official in one Army division indicated that the division used one particular EOR as a catch-all category. This EOR corresponded with DOD's GWOT cost-reporting category of "Other Services and Miscellaneous Contracts." Placing costs in

this category inflates this cost category. At another Army division, resource management officials reviewed the EOR list in order to streamline the number of EORs that the division used. After reviewing about 3,700 EORs, resource management officials concluded that about 15 were most appropriate for the purpose of categorizing its GWOT obligations.

The use of a single standardized EOR to categorize obligations for varying types of goods and services also affects proper cost categorization. For example, there is one EOR for all purchases made with a Government Purchase Card (GPC), regardless of the item or service purchased. In another example, resource management officials at one Army division told us that while deployed to Afghanistan, cash purchases made by its field ordering officers were always coded to the EOR for general supplies, no matter what item or service was obtained. Finally, ARCENT resource management officials told us that the command identified contracts that should have been allocated to several EORs but were consolidated under one EOR. These contracts inflated the costs for that EOR category.

When coding errors are made, they are not always corrected. Resource management officials at one Army division told us that it was too time-consuming to fix miscoded EORs, as it involves having to coordinate with customers and make changes in the Army's financial accounting system. As a result, inaccurate information remains in the accounting system. This division's Comptroller acknowledged that better attention should be paid to coding purchase requests at the comptroller level and that oversight should be a higher concern.

People responsible for categorizing purchases by the EOR are not always properly trained, which further complicates correct categorization. Resource management officials at an Army command we visited told us that there were training concerns with staff in the Comptroller's office, particularly given the frequent rotation in and out of the office that is typical of military staff. These officials told us that, often, the person responsible for entering EORs into the system has not been trained to do so. Obligations are often entered by lower-ranked enlisted soldiers who have been assigned to the position because they have downtime and are computer literate. These soldiers may not have any experience with entering obligation data and might have received little or no training on how to do so. According to the officials, inexperience is not a major issue with more straightforward obligation categories such as transportation; however, when applied to more complicated categories, such as supplies, many errors can occur.

Like the Army, the Marine Corps also captures GWOT obligations using cost categories, known in the Marine Corps as cost account codes. However, because the Marine Corps uses fewer categories, converting data into the contingency cost categories is simpler than for the other services. For example, Marine Corps Forces Pacific resource management officials established 31 cost account codes that translate into 25 of the 55 GWOT cost report categories. Resource management officials at one Marine Expeditionary Force told us that utilizing a simple system helps to improve the accuracy of their obligation data.

Processes for Recording GWOT Costs Can Lead to Errors

Processes used to enter and monitor operation and maintenance obligations may also contribute to unreliable cost data. For example, in the Army, resource management officials from two divisions that had deployed to Iraq and one division that had deployed to Afghanistan reported that, when deployed, the divisions were junior users of the Army's database Commitment Accounting System and did not have access to the Army's principal accounting system, the Standard Army Financial System. As a result, the three divisions had to submit their document registers to ARCENT to record obligations and commit funds. Resource management officials at two of the three divisions stated that the amounts recorded in ARCENT's ledger could not be relied upon because of manipulations and adjustments made to the data by ARCENT. One official stated that obligations or commitments would sometimes be doubled or eliminated entirely from the ledger. For example, one division had to reenter \$40 million in obligations that ARCENT dropped from the ledger during the fiscal year 2003 closeout. This official also told us that the system that the Army uses to track commitments was antiquated and did not support the data needed to accurately track and analyze costs.

The Use of Existing GWOT Cost Data Affects Multiple DOD Financial Processes

Notwithstanding concerns about data reliability, according to the Office of the Under Secretary of Defense (Comptroller), which develops GWOT budget requests in concert with the military services and other DOD components, a metric is needed and the GWOT cost reports are the only available data. In discussing the implications of improperly categorizing GWOT obligations, the Comptroller's office told us that it adversely affects decision making and the ability to use the data for analysis. In discussing how the detailed cost data are used, a Comptroller representative told us that he uses the detailed information presented in the cost breakdown structure categories in the report for several purposes, as follows:

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- to make billion-dollar decisions in developing supplemental funding budget requests;
 - to cross-check the cost data as presented in the cost breakdown structure with the estimates developed by the Contingency Operations Support Tool (COST) model; and
 - as a management tool to adjust the cost factors in the COST model and revise the model, prepare supplemental funding budget requests, and inform DOD leadership of detailed costs incurred for GWOT.

DOD Is Using Regulations to Guide GWOT Budgeting, Reporting, and Spending That Were Not Designed for Wartime Operations

Office of the Under Secretary of Defense (Comptroller) and military service officials are using DOD's existing financial management regulation that addresses contingency operation funding for guiding budget submissions, cost reporting, and spending for GWOT. However, DOD's Financial Management Regulation,²² which contains these policies and procedures, was designed for small-scale contingency operations and has language expressly stating that it is not intended to address wartime activities such as those that DOD is confronted with in the current war.²³ Furthermore, specific provisions in this regulation conflict with the GWOT funding procedures and, in some cases, the needs of the war. Without an updated policy on GWOT budgeting, cost reporting, and spending, the military services and other DOD agencies cannot make informed judgments on the appropriate use of GWOT funding authorities. In response to our work, the Office of the Under Secretary of Defense (Comptroller) has updated its regulation to address GWOT spending.

Current Spending Policy Was Developed for Smaller-Scale Operations

DOD's current regulation was designed for small-scale contingency operations and is not intended to address wartime activities. In February 1995, DOD added a chapter to its financial management regulation to establish policies and procedures for estimating the budget and reporting the costs of contingency operations (vol. 12, ch. 23—Contingency Operations). In 1998 the Office of the Under Secretary of Defense (Comptroller) implemented a standard cost breakdown structure for

²² Department of Defense Financial Management Regulation 7000.14R, vol. 12, ch. 23, Contingency Operations (January 2005).

²³ Ch. 23, sec. 230101 and 230105.

standard contingency operations to improve the budgeting and reporting of these costs. This structure was incorporated in the 2001 version of chapter 23 and has been expanded in the latest January 2005 version. The Office of the Under Secretary of Defense (Comptroller) has also supplemented its regulation through messages regarding cost reporting and formulating specific fiscal year budget requests. Since its publication in 1995, Comptroller officials have used chapter 23 and later the cost breakdown structure in particular, to budget, capture the costs, and fund or seek supplemental funding for contingency operations. Comptroller officials have also directed the services to prepare budget estimates and report the costs of contingency operations (to include the various missions that support the Global War on Terrorism), according to chapter 23's provisions. During our visits to the military commands and installations that have been involved in supporting GWOT contingency operations, service financial managers indicated that they use chapter 23 as a primary source to guide all war-related spending.

Although Office of the Under Secretary of Defense (Comptroller) and service financial management officials are continuing to use the provisions in chapter 23 to guide their GWOT budget submissions, cost reporting, and spending, it is not clear to what extent these provisions should apply, especially given that, on its face, chapter 23 states that its policies and procedures do not address wartime activities or circumstances that require U.S. military forces to be placed on a wartime footing.²⁴ Moreover, numerous specific provisions in chapter 23 conflict with the GWOT funding procedures and, in some cases, the needs of the war.

In addition to the express language that states that chapter 23 does not apply to wartime activities, the overall structure of chapter 23 and many of its specific provisions are not intended to address the types of costs incurred or funding authorities provided to support GWOT. For example, although the fiscal year 2004 GWOT budget estimates and cost reporting contained significant amounts of investment costs, chapter 23, given that it was designed to address small-scale contingency operations, which usually would not involve such costs, did not include policies and procedures to guide the budgeting or reporting of these costs.²⁵ Moreover, another

²⁴ Ch. 23, sec. 230105.

²⁵ Chapter 23 was revised in January 2005 to include these cost categories and provide descriptions of these types of costs.

specific provision in chapter 23 states that these costs should not be considered as incremental costs of a contingency operation.²⁶ Recognizing that large-scale contingency operations lasting as long as GWOT and affecting a large portion of U.S. military units may necessarily incur investment costs, these provisions illustrate an inconsistency between the needs to support the war and the current DOD policies and procedures used to guide the preparation of GWOT budgets, cost reporting, and spending. This lack of clarity could lead to uncertainty at all levels within DOD over what policies actually are intended to guide the funding for the war.

Use of GWOT Funds for Home Station Operations Is Most Affected by the Lack of Updated Policy

There is confusion over DOD's policies and procedures for guiding the preparation of GWOT budgets, cost reporting, and the spending of billions of dollars in GWOT funding for base operation activities at the home stations of the military units that are preparing to deploy or have deployed on GWOT missions. Chapter 23 expressly states that costs associated with facilities/base support activities may be budgeted and reported only if the activities occur away from a unit's home station.²⁷ Despite this administrative limitation, many installations have been budgeting and recognizing as GWOT-related costs base support costs for home station activities. For example, in fiscal year 2003 the Navy spent \$42.5 million for wharf repairs at Pearl Harbor, Hawaii. In fiscal years 2003 and 2004, the Air Force spent a total of more than \$117 million at Anderson Air Force base in Guam for a variety of installation-related costs (e.g., support facilities for bomber aircraft and storm damage repair). The Army's Installation and Management Agency, which manages all Army installations, obligated \$1.52 billion in fiscal year 2004 and has budgeted about \$2.07 billion in fiscal year 2005 expressly for GWOT-related "home station" base support activities. All of these costs conflict with the home station spending limitation in chapter 23.

Notwithstanding chapter 23's administrative limitation on budgeting and reporting costs for home station facilities/base support activities, some of these reported costs appear to meet the definition of "incremental costs," which guides all GWOT spending. DOD policy states that costs associated

²⁶ Ch. 23, sec. 230902.

²⁷ Ch. 23, sec. 230406, Cost Category 3.4, Facilities/Base Support. Examples of activities away from home station would include those in Iraq.

with contingency operations are limited to the incremental costs of the operations, that is, costs that are above and beyond baseline training, operations, and personnel costs or costs that would not have been incurred had the contingency operation not been supported²⁸ (i.e., costs that are directly attributable to the operation). During our review, we noted a number of instances in which GWOT costs were recorded relating to home station base operation activities that appear to be directly attributable to the war. At one Army installation—an installation that helped prepare reserve military personnel for deployments in support of GWOT—we found reported GWOT costs for the renovation of barracks, dining facilities, and latrines to accommodate increased numbers of reserve personnel using those facilities. However, we also found some home station costs that did not appear to support the war or only to tangentially support it. For example, at this same installation we found that it also reported GWOT costs for renovating unneeded vehicles for redistribution within the Army even though they were not used in any contingency operation and had been declared excess to the unit before it deployed. At another Army installation, we found GWOT costs to improve the readiness condition of equipment not deployed for contingency operations. In addition, we found that one Navy Command reported GWOT costs for improving the condition of floating docks that were not properly stored while the unit responsible for their upkeep was deployed on a GWOT mission. The docks were seriously corroded as a result of not being stored properly and left in salt water for more than a year. Navy officials said that nearly \$6 million in GWOT funding had been used in fiscal year 2003 to pay for these repairs. Navy officials disagreed with our view that these costs were at best tangential to the support of the war and noted that the justification for the repairs was that these docks were a requirement and would likely be needed in the future to support GWOT. However, we believe that GWOT costs are limited by the provisions of chapter 23 to those costs that are in direct support of the war.

In response to our concerns about the inconsistencies contained in chapter 23, in August 2005, the Office of the Under Secretary of Defense (Comptroller) officials approved a revision to chapter 23 to clarify the policy on both base operations and investment costs for contingency operations. This clarification should assist the military services and other DOD agencies in making informed judgments on the appropriate use of GWOT funding authorities.

²⁸ Ch. 23, sec. 230406 and 230902.

Cost Controls Can Be Strengthened As Operations Mature

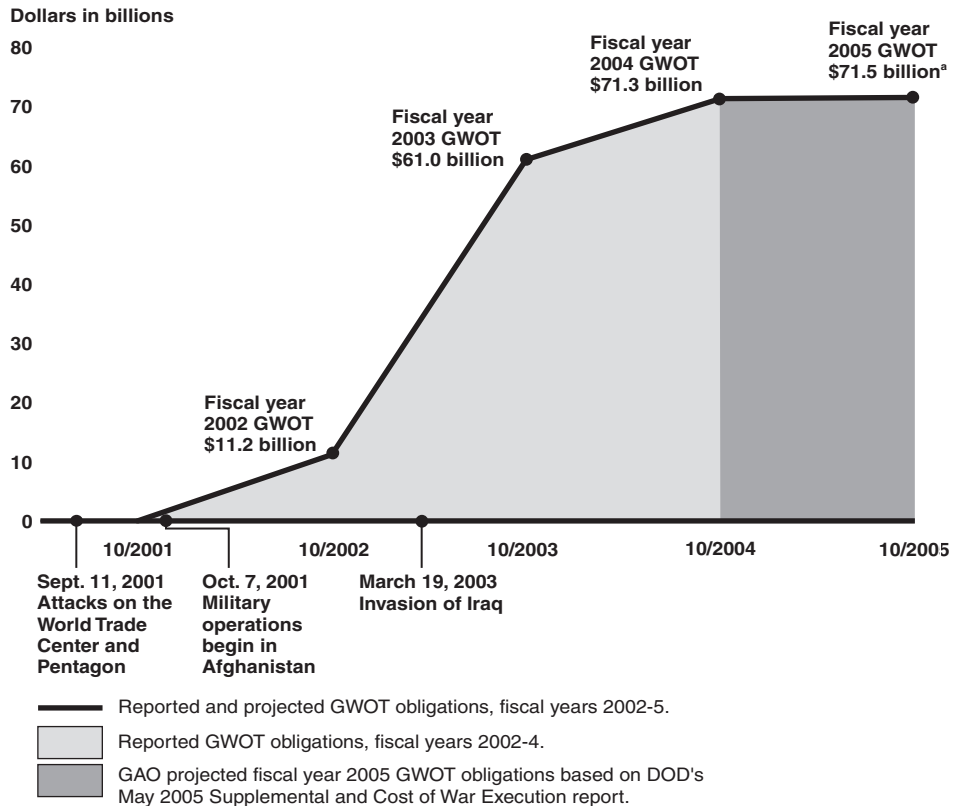
DOD and Office of Management and Budget policies emphasize the need to spend funds prudently. Individual commands and commanders have implemented a variety of cost controls for GWOT spending. Current cost controls include acquisition review boards, command review of purchases, limits on some categories of spending, and a cost reduction goal in Iraq. However, DOD's policies and guidance do not go beyond advising DOD officials of their financial management responsibilities with regard to the prudent use of contingency funding authorities and provide no guidelines on steps that should be taken to control costs, particularly as operations mature, while ensuring mission accomplishment. Resource managers from a number of Army divisions that have deployed to Iraq or Afghanistan have told us that cost controls can be strengthened as operations mature.

Policy Emphasizes the Need for Prudent Spending

OMB circular A-123 requires all managers of federal funds to ensure that cost-effective controls be implemented for the expenditure of appropriated funds. Section 230108 of DOD's financial management regulation for contingency operations, which was added in January 2005, advises DOD officials of their financial management responsibilities to ensure the prudent use of contingency funding authorities. The section emphasizes that it is vital for civilian and military personnel authorized to obligate and expend funds in support of contingency operations to employ a fiduciary approach to ensure that funds are used in a prudent manner.

GWOT spending has risen steadily since the attacks of September 11, 2001, as operations have expanded. As shown in figure 2, from fiscal year 2002 through fiscal year 2004, reported costs rose from \$11 billion to \$71 billion annually and, from our projection of reported fiscal year 2005 obligations through May 2005, could reach about \$71.5 billion again in fiscal year 2005. The large amount of spending and its growth underscore the need for cost controls.

Figure 2: Growth in Reported and Projected GWOT Spending, Fiscal Years 2002-5



Source: GAO's analysis of DOD GWOT-cost reporting data.

^a GAO projected the fiscal year 2005 GWOT cost on the basis of reported obligations through May 2005.

Individual Commands Have Developed a Variety of Cost Controls for GWOT Spending, but There Is No Systematic DOD Effort to Ensure That All Commands Pursue Cost Controls

Some commands have taken steps to seek economy and efficiency in performing tasks by reviewing existing requirements and seeking more efficient methods to perform required tasks. Over the years, we have reported that when the government seeks opportunities to control costs, savings are usually realized. For example, in July 2004 we reported that savings are generally realized when the customer reviews logistics support contractors' work for economy and efficiency but that these reviews have

not been routinely conducted at all work locations.²⁹ We reported that U.S. Army Europe saved \$200 million dollars, or 10 percent of the contract ceiling price, on its Balkans Support Contract; Third Army would save \$31 million annually in Kuwait, or 43 percent by changing food service contractors; and the Marine Corps saved \$8.6 million, or 18 percent, from an estimated \$48 million in work in Djibouti, which is one of the Operation Enduring Freedom locations.

Military commands and individual commanders involved in GWOT as well as in earlier operations have put in place a variety of controls on their own initiative designed to control costs. Some examples are as follows:

- Acquisition review boards are being used in Iraq, Afghanistan, and Kuwait to assess if requirements are valid and, if so, decide how best to satisfy them. In addition, in an August 2004 order, the commander of Multinational Forces-Iraq established a stewardship council intended to reinforce fiscal discipline in order to ensure that limited financial resources are effectively and efficiently employed to accomplish the command's strategic objectives.
- Individual Army divisions have taken steps to control costs. One Army division we visited has restricted the use of its Government Purchase Cards for GWOT reconstitution obligations until the card holders complete a training class detailing the appropriate use of the cards. The division Comptroller stated that this action was taken to limit spending and ensure that purchases made in support of GWOT were appropriate. Another Army division implemented a Program Budget Advisory Committee to review its GWOT predeployment requirements. One example of economies directed by the committee was to consolidate requirements for medical supplies, batteries, and ballistic blankets into a single division purchase. The committee was reestablished upon the division's return from Afghanistan for the review and approval of GWOT reconstitution requirements.
- Third Army, which obligated almost \$17 billion in fiscal year 2004 to support GWOT, has taken a number of steps to control costs. Among other things, it reviews requisitions of items obtained through the stock fund that are not reviewed by the review boards in Iraq, Afghanistan,

²⁹ GAO, *Military Operations: DOD's Extensive Use of Logistics Support Contracts Requires Strengthened Oversight*, [GAO-04-854](#) (Washington, D.C.: July 19, 2004).

and Kuwait—specifically, items that have a high dollar value, involve large quantities, are pilferable, or are personal items. In a March 2005 message to the Vice Chief of Staff of the Army, the Third Army commander also described cost control measures implemented by organizations funded by Third Army. These included management controls placed on requests to expand the use of LOGCAP, reducing the cost of transporting cargo into the theater, and reducing demurrage charges associated with commercial containers by identifying and returning excess containers.

The Army has also set limits on certain kinds of spending. For example, the Army set a \$6.5 billion limit on LOGCAP spending in fiscal year 2004 on the basis of the estimated cost of required work and a \$6.6 billion limit for fiscal year 2005. On a much smaller scale, in July 2004, Third Army issued a policy memorandum setting forth procedures for purchasing and awarding unit coins³⁰ to limit coins purchased with contingency operations funds. The policy recommends a funding ceiling for coin purchases from operating funds of \$1,000 per battalion and \$3,000 per brigade.

One command has also set spending reduction targets to constrain spending. The commander of coalition forces in Iraq has set a 10 percent cost reduction target in Iraq. According to the Deputy Chief of Staff for Resource Management for Multinational Forces-Iraq, the cost-reduction goal was intended as a direction to take the command rather than as a hard target. While realizing that many factors driving costs were outside his control, the commanding general wanted the command to manage those areas that the command could affect. The cost-reduction plan was broken down into three lines of operation—stock fund, LOGCAP, and nonstock fund. As a result the command reports the following:

- Efforts to control stock fund costs have met with mixed results. The command has encountered difficulties in controlling stock fund costs in part because units can order items directly from the supplying command, bypassing the command in Iraq. However, some control procedures have been established, which reduced direct orders from approximately \$50 million per month to \$5 million in April 2005.

³⁰ Unit coins are custom-minted and emblazoned coins or similar items, typically with unit insignia on the obverse (front) side and an inscription on the reverse side, presented by or on behalf of the commander as an on-the-spot award to show recognition for accomplishment to U.S. military members or civilians.

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- The command reports that it has been working to control LOGCAP costs, but additional requirements were subsequently identified that were expected to drive up LOGCAP costs beyond the initial \$4.3 billion goal. The commanding general has asked the Army Audit Agency to help evaluate the use of the LOGCAP program in Iraq and provide recommendations for cost savings and improved processes.
 - The command reports that it is well on its way to achieving its goal of \$2.25 billion for nonstock fund spending. As of April 30, 2005, the command reported that it had obligated only about \$1 billion in nonstock funds and was well on its way to come in under the initial savings goal.

ARCENT, the Army command responsible for funding the command in Iraq, was aware of the initiative but not its details and was not aware of whether there were similar efforts in other countries, specifically in Afghanistan and Kuwait.

While DOD policy emphasizes commanders' fiduciary responsibility to spend funds prudently, it has not directed any systematic effort for the services and combatant commands to seek opportunities to reduce costs or provided guidelines for doing so. In discussions with resource management personnel in Army units that were deployed to Iraq and/or Afghanistan, there was a consensus that cost controls can be strengthened as an operation matures. For example, resource managers at one Army division that deployed to Iraq told us that the division's experience is that spending can be managed at all stages of a contingency operation, even under high-operating-tempo combat operations. Another Army division resource manager who deployed to Iraq told us that he could have operated under a budget after his third month of deployment to Iraq. He preferred to operate under a budget where he knew the amount of funding that was available and could tell commanders that they had to prioritize their requirements. A third Army division resource manager, who deployed to Afghanistan, told us that as an operation matures, cost controls can be strengthened.

In discussing efforts to control costs with the Office of the Under Secretary of Defense (Comptroller), the view was expressed that on the basis of the varying combat situations, steps to control costs were best left to the individual commands. As described above, individual commands have done much to control costs, but efforts vary by command, and there is limited knowledge of such efforts outside each command. The

Comptroller's office has no direct knowledge of the commands' cost control efforts and has not asked to be kept informed of cost control steps. We believe that more can be done and that absent DOD-wide guidelines on cost control efforts, there is no assurance that successive commanders will emphasize cost control and that each command's efforts will be equally comprehensive.

Conclusions

We found numerous problems with DOD's processes for recording and reporting costs for the Global War on Terrorism, raising significant concerns about the overall reliability of DOD's reported cost data. Because of these problems, neither DOD nor Congress can reliably know how much the war is costing and details on how appropriated funds are being spent, or have historical data useful in considering future funding needs. In response to our work, DOD has identified a number of steps it said it is taking to improve the accuracy and reliability of its cost reporting. Until DOD fully implements those steps, gives improving its GWOT cost reporting high priority, and undertakes an exhaustive effort to ensure that the data in its GWOT cost reports are reliable, there can be no assurance that the cost of the war is accurate and whether funding is adequate.

DOD is generally using its existing contingency operations financial management regulation to guide GWOT budgeting, cost reporting, and spending, although this regulation was developed and structured to manage the costs of small-scale contingency operations. Specific provisions of the regulation conflict with the needs of GWOT. One such conflict concerns administrative limitations on the use of supplemental funds for base support activities at home stations. In addition, the regulation includes conflicting policies and procedures to guide the budgeting or reporting of investment costs of the war. Without an updated policy, the military services and other DOD agencies cannot make informed judgments on the appropriate use of GWOT funding authorities. In response to our work, DOD revised its Financial Management Regulation.

While certain individual commands have taken steps to control costs and DOD policy generally advises its officials of their financial management responsibilities with regard to the prudent use of contingency funding, the Office of the Under Secretary of Defense (Comptroller) has not systematically called for all commands involved in GWOT to take steps to control costs and to keep the office informed of those steps and their success. With the growth in GWOT costs, there is a need to ensure that all commands seek to control costs. Until the department establishes

guidelines on cost controls and is routinely informed about the types of controls and their impact on costs, it cannot be sure that all that can be done to control costs is being done.

Recommendations for Executive Action

To ensure that Congress and the Department of Defense can reliably know how much the war is costing, we recommend that the Secretary of Defense take the following three steps:

1. Direct the Secretaries of the military services to undertake a series of steps to ensure that reported GWOT costs are accurate and reliable, to include:
 - developing a systematic process to review reported obligations;
 - developing and monitoring procedures to ensure that obligations are categorized correctly;
 - using actual data whenever possible and, when not possible, to take steps to allow the development of actual data; and
 - ensuring that actions previously agreed to in response to audits have been implemented effectively.
2. Direct the Office of the Under Secretary of Defense (Comptroller) to oversee the above service efforts as well as to develop a systematic process to review and test the reliability of the overall GWOT cost reports.
3. Direct the Secretary of the Army to take the following steps:
 - develop and implement formal procedures to guide the monthly reporting of GWOT military personnel costs;
 - formalize the Army's management review of military personnel cost information submitted for the GWOT cost report;
 - use information from the DOD payroll system, where applicable, to identify and report GWOT military personnel cost information; and
 - review and simplify the numbers of elements of resource currently used to identify, categorize, and record contingency costs.

To ensure that the military services and other DOD agencies make informed judgments on the appropriate use of GWOT funding authorities that are consistent with DOD guidance and meet the needs of GWOT, we recommend that the Secretary of Defense expand DOD's financial management regulation for contingency operations to include contingencies as large as the current GWOT. At a minimum, the updated policy should address the budgeting, cost reporting, and spending associated with investment and base operation and support costs at the home stations of units that support GWOT.

To ensure that GWOT mission needs are being met while applying appropriate cost controls we recommend that the Secretary of Defense direct the Office of the Under Secretary of Defense (Comptroller) to take the following two steps:

1. establish guidelines on cost controls, including identifying what types of cost controls are available to the services, and
2. require that the services routinely keep the Comptroller's office informed about the types of controls and their impact on costs, and share information on cost control efforts.

Agency Comments and Our Evaluation

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

DOD agreed with all but one of our recommendations, stating that it generally agreed with the intent of the recommendations and has carefully reviewed its guidance and procedures for reporting cost data. DOD further commented that on the basis of its review and consistent with our recommendations it has taken several immediate actions to improve procedures and strengthen the cost reports. These include issuing additional direction and guidance to strengthen, clarify, standardize, and simplify procedures for collecting, reporting, and auditing cost of war information and issuing supplemental guidance to its Financial Management Regulation to address large-scale contingency operations.

Regarding our recommendations on improving the accuracy and reliability of reported costs of the Global War on Terrorism and to have the Office of the Under Secretary of Defense (Comptroller) play a role in overseeing the efforts as well as to develop a systematic process to review and test the reliability of the overall GWOT cost reports, DOD stated that it has

completed implementation of this recommendation through the execution of new guidance and procedures for collecting and reporting cost of war information and is actively overseeing the preparation of GWOT cost reports. DOD further stated that the Army has changed its data collection and reporting process and among other things is now using a Standard Operating Procedure which prescribes a clear methodology for capturing contingency operations cost data from the accounting systems and a formal management review process to prepare military cost information associated with GWOT.

Regarding our recommendation to expand DOD's Financial Management Regulation for contingency operations to include contingencies as large as the current Global War on Terrorism, DOD agreed and stated that it has published supplemental guidance to volume 12, chapter 23 of its Financial Management Regulation to address large scale contingencies. While we agree that many of the revisions address problems we highlighted in our report, we are concerned with one provision that inappropriately expands the definition of incremental costs, stating that

“Additionally, because of the scale of operations, including intense combat or long term stability or anti-insurgency operations, expenses beyond only direct incremental costs may be appropriate on a case by case basis in written coordination with the Office of the Under Secretary of Defense (Comptroller).”

Although the revised guidance states that such costs require coordination with the Office of the Under Secretary of Defense (Comptroller), we believe that this expanded definition of incremental costs suggests that the costs of large-scale contingency operations can be beyond those defined elsewhere in DOD's guidance as incremental costs—i.e., those additional costs to the DOD Component appropriations that would not have been incurred had the contingency operations not been supported. We further believe that costs incurred beyond what was reasonably necessary to support a contingency operation cannot be deemed incremental expenses, since such costs are not directly attributable to support of the operation. In addition, we believe that expanding allowable costs of contingency operations beyond those directly attributable to support of the operation is problematic because it provides no guidance on what costs beyond those that are attributable to the operation are now allowed to be reported. We therefore do not believe that this provision meets the intent of our recommendation. The Under Secretary of Defense (Comptroller) should reconsider this provision in light of our evaluation of its potential consequences.

DOD did not agree with our recommendation to have the Office of the Under Secretary of Defense (Comptroller) establish guidelines on cost controls. In commenting on our recommendation, DOD stated that field commanders are the correct echelon to adopt and emphasize cost controls during a contingency; that it relies on the judgment of the combatant commander in the theater of operations to manage resources at their disposal to effectively safeguard personnel and perform the mission; and that implementing administrative funding controls could have a detrimental effect on the commanders' ability to make critical decisions in the theater. DOD further stated that the Office of the Under Secretary of Defense (Comptroller) has included a section in the Financial Management Regulation that emphasizes that the DOD components are responsible to employ a fiduciary approach to ensure that the funds are used in a prudent manner and that as operations mature, steps should be taken to evaluate and establish spending constraints. We recognize that certain individual commands have done much to control costs and describe some of those efforts, but we further note in our discussion of cost controls that efforts vary by command and that there is limited knowledge of such efforts outside each command. We do not believe, as DOD suggests, that our recommendation would have a detrimental effect on the commanders' ability to make critical decisions in the theater. We are simply recommending that DOD provide guidance that increases awareness of the need for reasonable cost controls and requires that the Office of the Under Secretary of Defense (Comptroller) be kept informed of the types of controls and their impact on costs and share information within DOD on cost control efforts. We continue to believe that more can be done and that absent DOD-wide guidelines on cost control efforts, there is no assurance that successive commanders will emphasize cost control and that each command's efforts will be equally comprehensive. Therefore, we have retained the recommendation.

In commenting on the report's content, DOD disagreed with GAO's position on the overstatement of the reported costs for mobilized Army reservists in fiscal year 2004. DOD commented that our report was incomplete because we did not consider military retirement pay and other costs, which DOD stated accounted for almost \$1.3 billion of the \$2.1 billion difference cited in our report. We disagree. As discussed in our draft report, initially, the Army could not support its reported costs for mobilized Army reservists or explain the \$2.1 billion difference that we noted between its payroll system and its reported cost for mobilized Army reservists. During our audit, the Army and the Office of the Under Secretary of Defense (Comptroller) provided us with several possible, although sometimes inaccurate,

explanations for the \$2.1 billion difference. After several months, DOD provided information showing that it could account for about \$1.6 billion of the \$2.1 billion difference. While making it clear that the information was received too late for us to assess its accuracy and completeness as part of our audit, we did include the information in our draft report. We stated that some of the explanations appeared valid, while others did not and, taken together, they failed to fully account for the difference. The fact that DOD's comment letter reduces the \$1.6 billion to \$1.3 billion further confirms the concerns we have expressed throughout this report over the accuracy of DOD's past reported costs. Finally, we believe that DOD's reference in its comment letter to the \$2.1 billion difference as an anomaly is a mischaracterization—particularly when viewed in the context of its explanation that “the Department’s use of estimates led to a difference.” As clearly stated in this report, we found that the reported cost data are not reliable, in part because of long-standing deficiencies in DOD’s financial and accounting systems, a lack of systematic processes to ensure that data are properly entered into those accounting systems, and the use of estimates rather than actual information. We understand that DOD is planning corrective action to address issues related to cost reporting for military personnel supporting GWOT operations.

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

If you or your staff has any questions regarding this report, please contact Sharon Pickup at 202-512-9619 or by e-mail at pickups@gao.gov or Greg Kutz at 202-512-9095 or kutzg@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page

of this report. GAO staff that made major contributions to this report are included in appendix IV.



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Gregory D. Kutz
Managing Director
Forensic Audits and Special Investigations

List of Congressional Committees

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

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

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

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

Scope and Methodology

To accomplish this review, we obtained and analyzed copies of all 12 months of the Department of Defense's (DOD) fiscal year 2004 monthly *Consolidated DOD Terrorist Response Cost Report* from the Office of the Under Secretary of Defense (Comptroller), which was renamed the *Supplemental and Cost of War Execution Report* in January 2005, to identify reported obligations by operation and by appropriation account for the military services. We did not review the obligations reported by the intelligence community or the other defense agencies, but we do mention the amount appropriated and obligated because the amount appropriated was part of the total DOD appropriation. We focused our analysis primarily, but not exclusively, on reported costs for fiscal year 2004—the latest full year of data available at the time of our review—and specifically the military personnel and operation and maintenance accounts as they represent the largest amount of spending. We also did not conduct site visits to Air Force units because their audit agency was conducting a similar review.

To determine the reliability of DOD's data, we reviewed previous GAO reports and reports from other audit agencies that identified long-standing material weaknesses in DOD's accounting systems. We conducted limited testing on operation and maintenance obligations using Global War on Terrorism (GWOT) funding because DOD's financial management systems and business processes have been reported to contain significant deficiencies. At the Army- and Marine Corps-unit levels, we judgmentally selected obligation data entries and traced them back to a computerized database or paper documents to determine whether the data were properly entered into the accounting system. At the Army's Central Command Headquarters, we judgmentally selected document numbers and item descriptions for obligations made in Iraq and Afghanistan. We traced the document register numbers against paper documentation controlled by the Defense Finance and Accounting Service (DFAS), Rome, New York. We also provided a written data reliability assessment checklist for Navy officials to report how they ensured that their data were accurate and reliable. Finally, we discussed the processes used to ensure that GWOT obligation data provided were accurate and reliable with service financial managers. We found that the reported cost data were not reliable because of long-standing deficiencies in DOD's financial and accounting systems, the lack of a systematic process to ensure that data were properly entered into those accounting systems, the use of estimates rather than actual data for some of DOD's reported costs, and the incorrect categorization of some reported costs due to the large number of cost categories and limited training on how to apply them. However, because it was not feasible to

examine all reported costs and significant data reliability problems existed, we were not able to determine the extent that total costs were misstated.

To identify unusual fluctuations in the reported Army military personnel GWOT obligations, we analyzed the fiscal year 2004 GWOT cost reports and discussed our work with the Army Budget Office and DFAS. We also obtained and reviewed cost-reporting for military personnel information, budget estimates, supplemental appropriation information, budget reprogramming documents, and other supporting documentation from the Army Budget Office. To determine if reported obligations were based primarily on estimates, we compared reported GWOT amounts for Army military personnel with Army obligation plans. We obtained monthly extracts of fiscal year 2004 military pay records for Army Reserve and National Guard soldiers supporting GWOT operations from the DOD payroll system at DFAS, Indianapolis. To identify GWOT obligations for Army military personnel based on actual DOD payroll information, we summarized payroll record extracts by pay component and aligned these amounts with the cost category structure of the GWOT cost report. For cost category "Reserve Components Called to Active Duty," we compared actual DOD payroll information with the estimated Army military personnel amounts in the GWOT cost report, calculated the difference, and discussed our work with the Army Budget Office. In July 2005, we obtained information from the Army and DOD on this difference.

To assess the extent to which DOD's existing financial management policy is applicable to war spending, we focused our efforts on analyzing guidance provided by the fiscal year 2004 Defense Appropriation Act and DOD's and the military services' specific policy and procedures. We reviewed previous GAO reports regarding guidance and oversight of contingency operations costs. We also reviewed DOD Financial Management Regulation volume 12 chapter 23, which establishes DOD policy and procedures for developing contingency budget estimates and cost reporting. We analyzed DOD's emergency supplemental budget requests for fiscal year 2003 and fiscal year 2004, and service contingency operation financial management policies and procedures. Lastly, we spoke with Office of the Under Secretary of Defense (Comptroller) and service financial management officials about GWOT budget estimations, cost reporting activities, and whether the current policy is sufficient or needs to be modified to reflect GWOT conditions.

To determine controls over costs, we reviewed reports on GWOT spending and contract management from other audit agencies as well as command

guidance and held discussions with resource management officials from major commands and units that had returned from Iraq and Afghanistan regarding their experiences. We also discussed what steps DOD has directed or implemented to strengthen cost controls and what actions it has implemented. Furthermore, we discussed cost controls implemented by Army divisions while deployed or upon the units' return to their home station.

We visited the following locations during our review:

- Office of the Under Secretary of Defense (Comptroller), Washington, D.C.
- Headquarters, Defense Finance and Accounting Service, Arlington, Virginia.
- Headquarters, Department of the Army, Washington, D.C.
- U.S. Army Installation Management Agency, Washington, D.C.
- U.S. Army Installation Management Agency, Southeast Region, Fort McPherson, Georgia.
- Headquarters, U.S. Army Forces Command and Headquarters, Third Army (Army Central Command), Fort McPherson, Georgia.
- Headquarters, U.S. Army Pacific, Fort Shafter, Hawaii.
- Headquarters, 25th Infantry Division, Schofield Barracks, Hawaii.
- Headquarters, U.S. Army Europe, Heidelberg, Germany.
- Headquarters, 1st Armored Division, Wiesbaden, Germany.
- Headquarters, III Corps and 1st Cavalry Division, Fort Hood, Texas.
- Headquarters, 3rd Armored Cavalry Regiment, Fort Carson, Colorado.
- Headquarters, U.S. Marine Corps Forces Pacific, Camp H.M. Smith, Hawaii.

- Headquarters, 1st Marine Expeditionary Force, Camp Pendleton, California.
- Defense Finance and Accounting Service Center, Denver, Colorado.
- Defense Finance and Accounting Service Center, Indianapolis, Indiana.
 - Defense Finance and Accounting Service-Rome, Rome, New York.
- Assistant Secretary of the Navy, Financial Management and Comptroller, Washington, D.C.
- Commander, Naval Installations Command, Washington, D.C.
- U.S. Fleet Forces Command, U.S. Atlantic Fleet, Norfolk, Virginia.
- Commander, U.S. Pacific Fleet, Pearl Harbor, Hawaii.
 - Commander, Naval Air Force, San Diego, California.
 - Commander, Naval Surface Force, San Diego, California.
 - Commander, Submarine Force, Pearl Harbor, Hawaii.
- U.S. Air Force Audit Agency, March Air Reserve Base, California.
- U.S. Air Forces Pacific, Hickam Air Force Base, Hawaii.

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

Ineffective Reporting of Fiscal Year 2004 Army Military Personnel Global War on Terrorism Obligations

As part of our work on cost reporting for the Global War on Terrorism (GWOT), we undertook a detailed review of obligations for Army military personnel supporting GWOT operations. The results of that review follow.

Background

In fiscal year 2004, the Department of Defense (DOD) asked for funds in a supplemental budget request to provide pay, allowances, subsistence, and other personnel costs for active- and reserve-component military personnel activated for duty in support of GWOT. This request included certain special pays that active-duty military personnel received for deployment, as well as the base pay, special pays, and allowances for reserve personnel mobilized to participate in or directly support GWOT operations. In addition, the estimate also included the costs to pay active-component personnel affected by military stop-loss programs and additional military personnel maintained on active duty above the normal end-strength levels to sustain the readiness of deploying units. As shown in figure 3, Congress provided about \$17.8 billion in funding for DOD military personnel in the fiscal year 2004 supplemental appropriation,¹ including almost \$12.9 billion provided for the Army. This was an increase from the about \$13.4 billion in funding for DOD military personnel, including about \$7.8 billion for Army military personnel in the fiscal year 2003 supplemental appropriation.²

¹ Emergency Wartime Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, Pub. L. No. 108-106, 117 Stat. 1209 (Nov. 6, 2003).

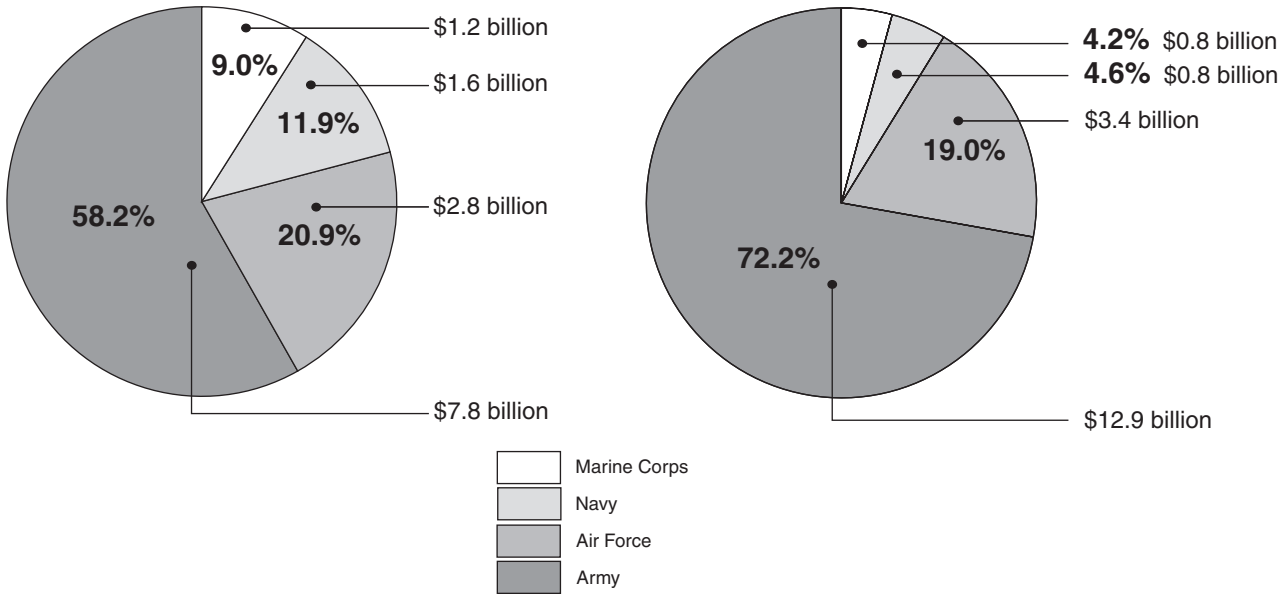
² Emergency Wartime Supplemental Appropriations Act, Pub. L. No. 108-11, 117 Stat. 559 (Apr. 16, 2003).

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Army Military Personnel Global War on
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Figure 3: Supplemental Funding of DOD Military Personnel for GWOT Operations in Fiscal Years 2003 and 2004

FY 2003 total = \$13.4 billion

FY 2004 total = \$17.8 billion



Source: GAO's analysis of Pub. L. Nos. 108-11 and 108-6.

In the September 2004 GWOT cost report, DOD military personnel obligations totaled over \$17 billion of the reported \$71.2 billion in total GWOT obligations for fiscal year 2004. Of this \$17 billion, Army military personnel obligations reported by DOD totaled almost \$12 billion, or about 71 percent, of military personnel obligations for GWOT operations. As shown in table 2, Army military personnel obligations for GWOT operations increased from fiscal year 2003 through fiscal year 2004, while obligations reported by other DOD organizations decreased.

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Table 2: DOD Military Personnel Obligations for GWOT Operations in Fiscal Years 2003 and 2004

Dollars in millions

	Dollars	
	Fiscal year 2003	Fiscal year 2004
DOD organizations		
Army	\$8,730	\$11,972
Air Force	3,409	3,272
Navy	1,934	857
Marine Corps	1,482	918
DOD & defense agencies	11	0
Total	\$15,566	\$17,019

Source: September 2003 and 2004 GWOT cost reports.

The Army Budget Office controls the Military Personnel, Army, appropriation account and is also responsible for identifying and reporting the incremental costs of Army military personnel in support of GWOT operations. Incremental military personnel costs are to include pay, special pay, and entitlements above normal monthly payroll costs for active- and reserve-component personnel.

In fiscal year 2004, the monthly GWOT cost report included the following six primary cost categories for military personnel as designated in the DOD Financial Management Regulation:³

- “Reserve Components Called to Active Duty” includes basic military pay for Reserve and National Guard personnel either as part of the operation or as backfill.
- “Imminent Danger or Hostile Fire Pay,” when authorized, provides a monthly special pay for active- and reserve-component personnel.
- “Family Separation Allowance” is a monthly special allowance paid to active- and reserve-component personnel who are separated from their families for 30 days or more.

³ DOD Financial Management Regulation 7000.14-R, vol. 12, ch. 23 (February 2001). A 2005 change to the FMR calls for eight cost categories related to military personnel obligations.

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- “Foreign Duty Pay” is a monthly special pay for active- and reserve-component personnel who are at a designated location outside of the continental United States.
- “Subsistence” includes the costs of food, water, ice, and other subsistence items that are purchased expressly to support personnel engaged in or supporting the operation.
- “Other Military Personnel” includes other allowances or special pay for active- and reserve-component personnel that are not included in another cost category. In fiscal year 2004, this category included the costs to pay active-component soldiers affected by military stop-loss programs and additional soldiers maintained on active duty above the normal end-strength levels.

Table 3 shows the Army military personnel obligations for GWOT operations reported in fiscal years 2003 and 2004.

Table 3: Army Military Personnel Obligations for GWOT Operations in Fiscal Years 2003 and 2004

Dollars in millions

Military personnel cost category	Dollars	
	Fiscal year 2003	Fiscal year 2004
Reserve components called to active duty	\$5,988	\$7,123
Imminent danger or hostile fire pay	248	499
Family separation allowance	146	105
Foreign duty pay	87	128
Subsistence	996	2,308
Other military personnel	1,265	1,809
Total	\$8,730	\$11,972

Source: September 2003 and 2004 GWOT cost reports.

Army Lacked a Reasonable and Reliable Process to Report GWOT Military Personnel Obligations

The Army did not have a reasonable and reliable process to identify and report almost \$12 billion of GWOT military personnel obligations in fiscal year 2004. Instead of using actual information, the Army based the GWOT military personnel obligations used in the GWOT cost report primarily on estimates in its fiscal year 2004 obligation plan and, in the end, forced, or “plugged,” obligations to match available supplemental budget authority. Army officials were unable to readily explain the process for identifying and reporting GWOT military personnel obligations owing to the lack of both formalized reporting procedures and management review of reported obligations, problems which were exacerbated by staff losses in the September 11 terrorist attack on the Pentagon, personnel turnover, and hiring difficulties.

Our analysis showed that obligations associated with Army military personnel in the monthly GWOT cost report were not consistent with related DOD payroll information, and the use of planned obligations instead of related DOD payroll information might have resulted in reported GWOT military personnel obligations being materially overstated. For fiscal year 2004, our analysis of the more than \$7.1 billion in incremental military personnel costs listed in the cost category “Reserve Components Called to Active Duty” identified as much as \$2.1 billion of reported obligations in excess of related DOD payroll information. Army Budget Office officials were unable to explain the entire difference.

Army GWOT Reporting Process Used Estimated Obligations

In 2003, the Army developed a monthly obligation plan for estimated GWOT military personnel obligations in fiscal year 2004 on the basis of anticipated funding of \$12.5 billion from the fiscal year 2004 DOD supplemental appropriation request. In October 2003, the Army began incurring military personnel obligations for fiscal year 2004 GWOT operations before passage of a supplemental appropriation. However, instead of using actual information, the Army based the military personnel obligations used in the monthly GWOT cost report primarily on estimates in its fiscal year 2004 obligation plan, and “plugged” to available supplemental budget authority. Effectively, the Army was reporting back to Congress exactly what it had appropriated.

Through much of fiscal year 2004, the Army Budget Office based military personnel obligations for GWOT operations primarily on its monthly obligation plan. As illustrated in table 4, this resulted in the cumulative

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GWOT military personnel obligations tracking closely to and, in two cases equaling, the estimated amounts from the fiscal year 2004 obligation plan.

Table 4: Army Obligation Plan and Reported Military Personnel Obligations for GWOT Operations in Fiscal Year 2004

Dollars in millions

Month	Cumulative dollars	
	Obligation plan	GWOT cost report
October 2003	\$956	\$811
November 2003	2,018	2,018
December 2003	3,122	2,819
January 2004	4,366	3,818
February 2004	5,320	4,886
March 2004	6,528	6,528
April 2004	7,650	7,686
May 2004	8,669	8,535
June 2004	9,657	9,421
July 2004	10,621	10,324
August 2004	11,577	11,219
September 2004	\$12,530	\$11,972

Source: Army Budget Office and fiscal year 2004 GWOT cost reports.

One example of military personnel obligations reported directly from the Army obligation plan is evident with the cost category for “Subsistence” described earlier. The Army obligation plan for “Subsistence” showed an estimated obligation amount of about \$130 million monthly in most of fiscal year 2004 and, except for a large increase⁴ in September 2004, was largely identical to the monthly GWOT cost report amounts as shown in table 5. Subsistence costs at the end of fiscal year 2004 were a major factor in the need to “plug” reported military personnel obligations in the GWOT report’s cost category “Reserve Components Called to Active Duty” as discussed later.

⁴ Army budget officials attributed this large, year-end increase to additional water contracts, transfers due to incorrect funding of the logistics civilian augmentation program, and anticipated carryover of fiscal year 2004 subsistence costs.

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Table 5: Army Obligation Plan and Reported Subsistence Obligations for GWOT Operations in Fiscal Year 2004

Dollars in millions

Month	Dollars per month	
	Obligation plan	GWOT cost report
October 2003	\$100	\$130
November 2003	160	130
December 2003	130	130
January 2004	130	130
February 2004	130	148
March 2004	130	130
April 2004	130	130
May 2004	130	130
June 2004	130	130
July 2004	130	130
August 2004	130	130
September 2004	130	860
Total	\$1,560	\$2,308

Source: Army Budget Office and fiscal year 2004 GWOT cost reports.

Budget authority for Army military personnel supporting GWOT operations provided in the fiscal year 2004 emergency supplemental appropriation was reduced late in the fiscal year. As detailed in table 6, reprogrammings and additional reductions lowered the supplemental budget authority available from the supplemental appropriation to about \$12 billion for Army GWOT military personnel in fiscal year 2004.

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Table 6: Supplemental Budget Authority for Army GWOT Military Personnel in Fiscal Year 2004

Dollars in millions	
Budget authority	Dollars
Fiscal year 2004 emergency supplemental appropriation	\$12,859
August 2004 omnibus reprogramming	(801)
September 2004 additional reductions	(86)
Available supplemental budget authority	\$11,972

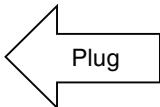
Source: Pub. L. No. 108-106, DOD, and GAO's analysis of Army Budget Office information.

The Army Budget Office reported negative obligations of more than \$439 million in the cost category "Reserve Components Called to Active Duty" for September 2004 so that GWOT military personnel obligations would equal available supplemental budget authority of about \$12 billion. This was necessary (1) because the fiscal year 2004 Army obligation plan was originally developed for about \$12.5 billion in GWOT military personnel spending and the available supplemental budget authority was reduced late in the fiscal year and (2) because of the unexpected need to obligate a large amount for the "Subsistence" cost category in September 2004. As shown in figure 4, the reporting of a negative amount effectively resulted in the Army's use of "plugging," or reporting back to Congress exactly the amount of available budget authority, as adjusted, remaining from the fiscal year 2004 emergency supplemental appropriation.

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Figure 4: Army Military Personnel Obligations for GWOT Operations in Fiscal Year 2004

Dollars in millions	
Military personnel cost category	Dollars
Reserve components called to active duty	
October 2003	\$637
November 2003	622
December 2003	730
January 2004	726
February 2004	745
March 2004	868
April 2004	882
May 2004	590
June 2004	785
July 2004	581
August 2004	396
September 2004	(439)
Reserve components called to active duty	7,123
Imminent danger or hostile fire pay	499
Family separation allowance	105
Foreign duty pay	128
Subsistence	2,308
Other military personnel	1,809
Available supplemental budget authority	\$11,972



Source: Fiscal year 2004 GWOT cost reports.

Army's Reporting Process
Hampered by Lack of
Formal Procedures and
Management Review

The process used in fiscal year 2004 to determine the Army's military personnel obligations for the monthly GWOT cost report was not clearly understood by Army Budget Office management, and we found that Army management was not familiar with the process used to force, or "plug," the reported fiscal year 2004 GWOT military personnel obligations to match available supplemental budget authority.

According to Army Budget Office officials, they did not have formal procedures for developing and reporting GWOT military personnel obligations. These officials explained that, in the absence of written

procedures, the process used to develop the monthly obligation information reported to the Defense Finance and Accounting Service (DFAS) was entirely dependent on the staff person assigned to this task. A DOD Financial Management Regulation includes general guidance on developing and reporting incremental costs related to contingency operations. For example, the guidance requires that controls, accounting systems, and procedures provide, in financial records, a proper identification and recording of the costs incurred for DOD contingency operations. However, this general guidance is not a substitute for detailed, written implementing procedures at the service level.

Furthermore, the Army Budget Office did not establish a formal management review process for the GWOT military personnel obligations reported monthly to DFAS. The Army could not provide documentation to show that management-level officials reviewed its GWOT military personnel obligations in fiscal year 2004 that were sent to DFAS for inclusion in the monthly GWOT report. Army Budget Office officials also told us that these problems were exacerbated by staff lost in the September 11 terrorist attack on the Pentagon, personnel turnover, and hiring difficulties. Specifically, the Army Budget Office-Military Personnel Division is authorized 10 civilian positions and had not been fully staffed in over 2 years. The position of Chief for the Military Personnel Division was held by three different individuals in the last 2 years. We were told that only one staff member had been with the division longer than 2 years. As of May 2005, Army Budget Office officials told us that 2 of the 10 positions were staffed by interns and 3 positions were not filled.

High staff turnover and new staff training make it increasingly important that detailed, documented procedures be developed for identifying and reporting incremental GWOT military personnel obligations. Formal procedures would help ensure that the monthly amounts are reported consistently and accurately, using the best available information. Lacking such procedures, Army Budget Office management provided two different explanations for the process for identifying and reporting GWOT military personnel obligations. When asked, Army management initially explained that reported GWOT military personnel obligations for fiscal year 2004 were based largely on payroll expenditures. However, our analysis of reported obligations revealed a significant, unexpected monthly fluctuation in two GWOT military personnel cost categories, raising doubts about the reasonableness of management's explanation and the reliability of the Army's estimation process. For example, as previously noted, a large negative obligation amount was reported in the "Reserve Components

Called to Active Duty” cost category in September 2004 even though the associated Army National Guard and Reserve soldier strength remained relatively constant during the period.

In December 2004, Army Budget Office management provided a different explanation and stated that GWOT military personnel obligations were estimates based principally on a calculation that considered the number of soldiers (e.g., mobilized, deployed) and a monthly composite pay rate or special pay/allowance amount. The Army Budget Office provided a schedule in January 2005 supporting this description of the estimating process for its GWOT military personnel obligations in fiscal year 2004. Using this description, our analysis of these obligations, however, indicated that the Army’s estimation process was not reliable. For example, our analysis showed that the estimated obligations reported were not reasonable owing to both inconsistencies with the number of soldiers and the high composite pay rate (i.e., officer-grade equivalent).

After further discussion with us about the reasonableness of their earlier explanations, an Army Budget Office official agreed with our determination in February 2005 that the reported amounts were based on planned obligations and later agreed that the year-end amount was matched, or “plugged,” to available supplemental budget authority. Army and DOD officials stated that efforts were being undertaken to improve GWOT cost reporting by using, where applicable, DOD payroll information instead of estimated amounts.

**Reported GWOT
Obligations for Mobilized
Army Soldiers Were
Significantly Higher Than
Related DOD Payroll
Information**

GWOT military personnel obligations reported in fiscal year 2004 were not consistent with the DOD payroll information we reviewed. Army management expressed a belief that pay and allowance information could not be obtained from the DOD payroll system and used for the monthly GWOT cost report. However, we obtained fiscal year 2004 payroll information from DFAS for reserve-component soldiers mobilized for GWOT operations and demonstrated that actual DOD payroll information, where applicable, could be used to identify incremental military personnel obligations for mobilized Army National Guard and Reserve soldiers. Although we previously reported that several system issues were significant factors impeding accurate and timely payroll payments to

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mobilized reserve-component soldiers,⁵ we believe that payroll information represents the best information available and should be used, where applicable, to prepare the GWOT cost report.

For fiscal year 2004, we evaluated the Army obligation plan estimates and military personnel cost category titled “Reserve Components Called to Active Duty.” Army officials explained that this estimate included a soldier’s basic pay, Federal Insurance Contribution Act contributions (i.e., Social Security and Medicare), allowances for housing and subsistence, and accrual amounts for retirement pay and retirement health care. From the DOD payroll system, we identified the payroll information for Army soldiers mobilized to support GWOT operations in fiscal year 2004 and analyzed payroll information for the related pay components used to estimate Army military personnel GWOT obligations. As shown in table 7, military personnel costs identified from the DOD payroll system were as much as \$2.1 billion less than the estimated Army obligations reported in the monthly GWOT cost report.

Table 7: Estimated Army Obligations for “Reserve Components Called to Active Duty” and Related DOD Payroll Costs in Fiscal Year 2004

Dollars in millions	
Reserve Components Called to Active Duty cost category	Dollars
Estimated obligations in GWOT cost report	\$7,123
Related DOD payroll costs	
Basic pay	3,472
FICA	266
Allowance for housing	1,204
Allowance for subsistence (officer)	30
DOD payroll total	4,972
Difference	\$2,151

Source: September 2004 GWOT cost report and GAO’s analysis of DOD payroll data.

⁵ GAO, *Military Pay: Army Reserve Soldiers Mobilized to Active Duty Experienced Significant Pay Problems*, GAO-04-911 (Washington, D.C.: Aug. 20, 2004), and *Military Pay: Army National Guard Personnel Mobilized to Active Duty Experienced Significant Pay Problems*, GAO-04-89 (Washington, D.C.: Nov. 13, 2003).

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Initially, the Army could not support this difference or its reported GWOT military personnel obligations. Over the next several months, the Army and the Office of the Under Secretary of Defense (Comptroller) provided us with several possible, though sometimes inaccurate, explanations for this difference. Some explanations appeared valid while others did not and, taken together, they failed to fully account for the difference. For example, when asked to explain the difference in military personnel obligations between the GWOT cost report and related DOD payroll information, Army Budget Office officials stated in March 2005 that a portion of the difference was attributable to retirement pay and retirement health care accruals. We found that the retirement health care accrual did not result in incremental costs and, therefore, was not a valid explanation for the difference. In July 2005, DOD agreed that mobilized reservists do not receive an increase in retirement health care benefits over benefits for nonmobilized reservists and, therefore, DOD does not incur incremental costs related to this benefit. However, mobilized reservists receive an increase in retirement pay benefits over benefits for nonmobilized reservists and, therefore, DOD incurs incremental costs related to this benefit. In July 2005, Army and Office of the Under Secretary of Defense (Comptroller) officials reported to us that \$824 million of the difference was attributable to the inclusion of the retirement pay accruals and provided other potential reconciling cost information totaling \$732 million as additional explanations for the difference. This information was provided too late in our audit to assess its accuracy and completeness.

Comments from the Department of Defense



COMPTROLLER

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



SEP 2 2005

Mr. David Walker
Comptroller General
U.S. Government Accountability Office
Washington, D.C. 20548

Dear Mr. Walker:

This is the Department of Defense (DoD) response to the Government Accountability Office (GAO) Draft Report, GLOBAL WAR ON TERRORISM: DoD Needs to Improve the Reliability of Cost Data and Provide Additional Guidance to Control Costs," dated September 2005. The Department appreciates the opportunity to review the draft report and provide comments.

The Department agrees generally with the intent of the recommendations and has carefully reviewed its guidance and procedures for reporting cost data. On the basis of our review and consistent with GAO's recommendations, the Department has taken the following immediate action to improve procedures and strengthen the cost reports:

- Office of the Under Secretary of Defense (Comptroller) issued additional direction and guidance to strengthen, clarify, standardize, and simplify procedures for collecting, reporting, and auditing cost of war information.
- The Services strengthened their monthly analysis on cost of war information to account for, and document, variances from established criteria.
- The Army implemented a formal management review process to ensure the capture of GWOT cost data directly from the accounting systems and to incorporate recommended corrections to the accounting for the costs of military personnel. The June 2005 GWOT report was prepared using this new process.
- Office of the Under Secretary of Defense (Comptroller) issued supplemental guidance to the DoD Financial Management Regulation (FMR) to address Large Scale Contingency Operations.

The Department does not concur with the recommendation regarding the establishment of guidelines and cost controls for commanders in a theater. The DoD Financial Management Regulations (FMR) includes guidance on the fiduciary




responsibilities of DoD components. Combatant Commanders are the correct echelon to adopt and emphasize cost controls during a contingency operation. The Department must rely on the judgment of these commanders in the theater of operations to effectively manage resources, to safeguard personnel and to perform their missions. Combatant Commanders understand their fiscal responsibility. Implementing administrative funding controls at the Department Headquarters level could have a detrimental effect on the commanders' ability to make critical decisions in theater.

Finally, the GAO states that the Department had a \$2.1 billion overstatement in reporting the costs for mobilized Army reservists in fiscal year 2004. The Department disagrees and believes that GAO's assessment of the actual costs is incomplete. The Department has provided GAO with additional documentation to justify that at least \$1.3 billion of the \$2.1 billion was not overstated. However, no attempt was made to reconcile this additional information in the draft final report.

Thank you again for the opportunity to provide the Department's response to the GAO's recommendations. The Department appreciates GAO's recommendations and will ensure that corrective actions are effectively implemented. We are taking aggressive action to improve our financial management practices and we look forward to your continued support in this regard.

Sincerely,



Tina W. Jonas

Enclosures:
As stated

Department of Defense Comments
GAO-05-882 (GAO Codes 350589 & 192148)

SUBJECT: GAO Draft Report, August 3, 2005, titled "GLOBAL WAR ON
TERRORISM: DOD Needs to Improve the Reliability of Cost Data and
Provide Additional Guidance to Control Costs"

DISCUSSION:

- The GAO report outlined five recommendations. The Department of Defense concurs with comment on four of the five recommendations.
- A restatement of the recommendation and the Department's comments follow:

RECOMMENDATION 1: The Secretary of Defense direct the Secretaries of the military services to undertake a series of steps to assure that reported Global War on Terrorism (GWOT) costs are accurate and reliable, to include:

- Developing a systematic process to review reported obligations.
- Developing and monitoring procedures to assure that obligations are categorized correctly
- Using actual data whenever possible and, when not possible, to take steps to allow the development of actual data.
- Assuring that actions previously agreed to in response to audits have been implemented effectively.

DoD COMMENT TO RECOMMENDATION 1: Concur. The Department has completed the implementation of this recommendation through the execution of new guidance and procedures for collecting and reporting cost of war information. We are now:

- Performing systematic reviews of the reported obligations along with documented explanations where established reasonableness tests have not been met.
- Categorizing obligations through more simplified methods and requiring thorough analysis to provide reasonable assurance that costs are reported correctly.
- Using data captured in the official accounting systems or subsidiary accounting systems (such as entitlement systems) for reporting, where possible and, documentation and methodologies for circumstances where data is not available in the accounting systems.
- Monitoring implementation and follow up of previous audit findings.

Department of Defense Comments
GAO-05-882 (GAO Codes 350589 & 192148)

RECOMMENDATION 2: The Secretary of Defense direct the Office of the Under Secretary of Defense (Comptroller) to oversee the above Service efforts, as well as to develop a systematic process to review and test the reliability of the overall GWOT cost reports.

DoD COMMENT TO RECOMMENDATION 2: Concur. The Office of the Under Secretary of Defense (Comptroller) is actively overseeing the preparation of GWOT cost reports. Services are now required to:

- Perform monthly analysis of the cost data based on specific variance criteria for each cost category.
- Provide footnote explanations where variances exceed the established criteria.
- Use data captured in the official accounting systems or subsidiary accounting systems (such as entitlement systems), for reporting costs.
- Provide documentation for circumstances where data is not available in the accounting systems.

Additionally, the Director of the Defense Finance and Accounting Services has been assigned responsibility for the application of test criteria to review the reliability of GWOT cost reports.

RECOMMENDATION 3: The Secretary of Defense direct the Secretary of the Army to take the following steps:

- Develop and implement formal procedures to guide the monthly reporting of GWOT military personnel costs.
- Formalize its management review of military personnel cost information submitted for the GWOT cost report.
- Use information from the DOD payroll system, where applicable, to identify and report GWOT military personnel cost information.
- Review and simplify the numbers of Elements of Resource currently used to identify, categorize, and record contingency costs.

DoD COMMENT TO RECOMMENDATION 3: Concur. The Army has changed its data collection and reporting process and is now using:

- A Standard Operating Procedure which prescribes a clear methodology for capturing Contingency Operations cost data from the accounting systems.
- A formal management review process to prepare military cost information associated with GWOT.

Department of Defense Comments
GAO-05-882 (GAO Codes 350589 & 192148)

- The DoD payroll system, where applicable, to help calculate military personnel cost information, and is reconciling reporting problems from previous reports.
- Simplified categories to identify, categorize and record contingency costs.

RECOMMENDATION 4. The Secretary of Defense direct the Office of the Under Secretary of Defense (Comptroller) to expand DoD's financial management regulation for contingency operations to include contingencies as large as the current Global War on Terrorism.

DoD COMMENT TO RECOMMENDATION 4: Concur. The Department has published supplemental guidance to the "DoD Financial Management Regulation (FMR)" Volume 12, Chapter 23 (Tab C) to address Large Scale Contingencies.

RECOMMENDATION 5. The Secretary of Defense direct the Office of the Under Secretary of Defense (Comptroller) to:

- Establish guidelines on cost controls, including identifying what types of cost controls are available to the services, and
- Require that the services routinely keep the Comptroller's office informed about the types of controls and their impact on costs, and share information on cost control efforts.

DoD COMMENT TO RECOMMENDATION 5: Non-concur. The DoD Financial Management Regulations (FMR) include guidance on the fiduciary responsibilities of DoD components. The field commanders are the correct echelon to adopt and emphasize cost controls during a contingency. The Department relies on the judgment of the Combatant Commander in the theater of operations to manage resources at their disposal to effectively safeguard personnel and perform the mission. OUSD(C) has included a section in the FMR that emphasizes that the DoD Components are responsible to employ a fiduciary approach to ensure that the funds are used in a prudent manner. As operations mature, steps should be taken to evaluate and establish spending constraints.

Department of Defense Comments
 GAO-05-882 (GAO Codes 350589 & 192148)

SUBJECT: GAO Draft Report, August 3, 2005, titled "GLOBAL WAR ON
 TERRORISM: DOD Needs to Improve the Reliability of Cost Data and Provide
 Additional Guidance to Control Costs:"

DISCUSSION:

- The Department maintains that the following portion of the GAO report is inaccurate: "In at least one case, the reported costs may be materially overstated. Specifically, reported obligations for mobilized Army reservists in Fiscal Year 2004 were based primarily on estimates rather than actual information, and differed from related DoD payroll information by as much as \$2.1 billion or 30 percent of the amount DoD reported in its cost report."
- Although the Department's use of estimates led to a difference between the reported amount and the actual amount incurred, this error is less than the \$2.1 billion identified by GAO. The Department of Defense does not concur with the stated amount for the following reasons:
 - The GAO finding was incomplete because it only reflected costs from the Defense Joint Military Pay System (DJMS)-Reserve Component (RC) system, but other valid costs associated with Mobilized National Guard Active Guard and Reserve (AGR) Soldiers paid off the DJMS-Active Component (AC) system were omitted.
 - GAO did not consider costs for Retired Pay Accrual (RPA) for mobilized reservists which DFAS calculates and manually posts to the accounting system.
 - The following is the Department of Defense Reconciliation of GAO FY04 MILPERS Audit:

GAO Difference	\$2,150,874
Less:	
RPA not included in DJMS-RC extract (Calculated accrual done outside of RC pay system)	(\$824,001)
National Guard AGR pay not in DJMS-RC (Allowances were paid off in the DJMS-AC system) ¹	(\$160,494)
RC Basic Allowance for Subsistence not reported on mobilized RC pay line	(\$301,961)
Balance of GAO Difference ²	\$864,418

Notes:

1 Amount is an estimate, since NGPA managers can not isolate exact amounts of IDP, FSA and HDIP included in DFAS reported amount of pay and allowances.

2 Remaining balance could be reduced further by pay and allowances of CO-TTAD and CO-EAD soldiers; however, DFAS can't currently isolate those costs, so they are not included in the reconciliation.

Department of Defense Comments
GAO-05-882 (GAO Codes 350589 & 192148)

- GAO is aware that action has been implemented to prevent this anomaly from reoccurring. GAO does not mention this corrective action in the report.
 - The Army implemented new accounting procedures for the Military Pay Appropriation in FY 2004.
 - The Army's accounting system, (STANFINS) became the system of original entry in FY2004, wherein obligations are estimated prior to the disbursement phase.
 - A systematic process has been implemented to review reported amounts.
 - All disbursements are recorded in the general account with GWOT disbursements, then transferred to appropriate GWOT account.

GAO Contacts and Staff Acknowledgments

GAO Contacts

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