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United States Government Accountability Office
Washington, DC 20548

March 30, 2009

Congressional Committees

Subject: *Global War on Terrorism: Reported Obligations for the Department of Defense*

Since 2001, Congress has provided the Department of Defense (DOD) with about \$808 billion in supplemental and annual appropriations, as of March 2009, primarily for military operations in support of the Global War on Terrorism (GWOT).¹ DOD's reported annual obligations² for GWOT have shown a steady increase from about \$0.2 billion in fiscal year 2001 to about \$162.4 billion in fiscal year 2008. For fiscal year 2009, Congress provided DOD with about \$65.9 billion in supplemental appropriations for GWOT as of March 2009 and the President plans on requesting an additional \$75.5 billion in supplemental appropriations for GWOT for the remainder of the fiscal year. A total of \$31.0 billion has been obligated in the first quarter of fiscal year 2009 through December 2008. The United States' commitments to GWOT will likely involve the continued investment of significant resources, requiring decision makers to consider difficult trade-offs as the nation faces an increasing long-range fiscal challenge. The magnitude of future costs will depend on several direct and indirect cost variables and, in some cases, decisions that have not yet been made. DOD's future costs will likely be affected by the pace and duration of operations, the types of facilities needed to support troops overseas, redeployment plans, and the amount of equipment to be repaired or replaced.³

DOD compiles and reports monthly and cumulative incremental obligations incurred to support GWOT in a monthly report commonly called the Contingency Operations Status of Funds Report.⁴ DOD leadership uses this report, along with other information, to advise Congress on the costs of the war and to formulate future GWOT budget requests. DOD reports these obligations by appropriation, contingency operation,⁵ and military service or

¹After the terrorist attacks of September 11, 2001, the President announced a Global War on Terrorism, requiring the collective instruments of the entire federal government to counter the threat of terrorism. Ongoing military and diplomatic operations overseas, especially in Iraq and Afghanistan, constitute a key part of GWOT. These operations involve a wide variety of activities, such as combating insurgents, training the military forces of other nations, and conducting small-scale reconstruction and humanitarian relief projects.

²According to Department of Defense, *Financial Management Regulation*, 7000.14-R, vol. 1, "Definitions" (Dec. 2001), xvii, obligations are incurred through actions such as orders placed, contracts awarded, services received, or similar transactions made by federal agencies during a given period that will require payments during the same or a future period.

³For more information see GAO, *Securing, Stabilizing, and Rebuilding Iraq: Key Issues for Congressional Oversight*, GAO-07-308SP (Washington, D.C.: Jan. 9, 2007), and *Global War on Terrorism: Observations on Funding, Costs, and Future Commitments*, GAO-06-885T (Washington, D.C.: July 18, 2006).

⁴This report replaces the Supplemental and Cost of War Execution Report.

⁵DOD defines contingency operations to include small, medium, and large-scale campaign-level military operations, including support for peacekeeping operations, major humanitarian assistance efforts, noncombatant evacuation operations, and international disaster relief efforts.

defense agency. DOD has prepared monthly reports on the obligations incurred for its involvement in GWOT since fiscal year 2001.⁶

Section 1221 of the National Defense Authorization Act for Fiscal Year 2006⁷ requires us to submit quarterly updates to Congress on the costs of Operation Iraqi Freedom and Operation Enduring Freedom based on DOD's monthly cost-of-war reports. This report, which responds to this requirement, contains our analysis of DOD's reported obligations for military operations in support of GWOT through December 2008. Specifically, we assessed (1) DOD's cumulative appropriations and reported obligations for military operations in support of GWOT and (2) DOD's fiscal year 2009 reported obligations from October 2008 through December 2008, the latest data available for GWOT by military service and appropriation account.

In fiscal year 2008, we have conducted a series of reviews examining funding and reported obligations for military operations in support of GWOT. Our prior work⁸ has found the data in DOD's monthly cost-of-war report to be of questionable reliability. Consequently, we are unable to ensure that DOD's reported obligations for GWOT are complete, reliable, and accurate, and they therefore should be considered approximations. Based on this work, we have made a number of recommendations to the Secretary of Defense intended to improve the transparency and reliability of DOD's GWOT obligations. For example we have recommended that DOD (1) revise the cost reporting guidance so that large amounts of reported obligations are not shown in "other" miscellaneous categories and (2) take steps to ensure that reported GWOT obligations are reliable. In response, DOD is taking steps to improve GWOT cost reporting. For example, DOD has modified its guidance to more clearly define some of the cost categories and is taking additional steps to strengthen the oversight and program management of the cost reporting. Specifically, DOD has taken steps to improve transparency by requiring components to analyze variances in reported obligations and to disclose reasons for significant changes, and to affirm that monthly reported GWOT obligations provide a fair representation of ongoing activities. Furthermore, in February 2007, DOD established a Senior Steering Group including representatives from DOD, the Defense Finance and Accounting Service (DFAS), and the military services in an effort to standardize and improve the GWOT cost-reporting process and to increase management attention to the process. DOD established a GWOT Cost-of-War Project Management Office to monitor work performed by auditing agencies and to report possible solutions and improvements to the Senior Steering Group. DOD has started several initiatives to improve credibility, transparency, and timeliness. One of the initiatives is a quarterly validation of GWOT obligation transactions at each of the DOD components with the goal of having a sampling of all types of costs validated in fiscal year 2008. Until all DOD efforts are more fully implemented, it is too soon to know the extent to which these changes will improve the reliability of DOD's cost reporting.

⁶Department of Defense, *Financial Management Regulation*, 7000.14-R, vol. 12, ch. 23. This regulation generally establishes financial policy and procedures related to DOD contingency operations. Volume 6A, chapter 2, and volume 3, chapter 8, of the DOD *Financial Management Regulation* also include provisions to ensure the accuracy of cost reporting.

⁷Pub. L. No. 109-163, § 1221(c) (2006).

⁸For more information see GAO, *Global War on Terrorism: DOD Needs to Improve the Reliability of Cost Data and Provide Additional Guidance to Control Costs*, GAO-05-882 (Washington, D.C.: Sept. 21, 2005); and *Global War on Terrorism: DOD Needs to Take Action to Encourage Fiscal Discipline and Optimize the Use of Tools Intended to Improve GWOT Cost Reporting*, GAO-08-68 (Washington, D.C.: Nov. 6, 2007).

While establishing sound cost reporting procedures and oversight is clearly important, the reliability of the cost-of-war reports also depends on the quality of DOD's accounting data. Factors contributing to DOD's challenges in reporting reliable cost data include long-standing deficiencies in DOD's financial management systems. We are aware that DOD has efforts under way to improve these systems as well.

We have also made recommendations to improve transparency and fiscal responsibility related to funding the war on terrorism and to permit the Congress and the administration to establish priorities and make trade-offs among those priorities in defense funding. Specifically, we recommended that DOD (1) issue guidance defining what constitutes the "longer war against terror," identify what costs are related to that longer war, and build these costs into the base defense budget; (2) identify incremental costs of the ongoing GWOT operations that can be moved into the base budget; and (3) in consultation with the Office of Management and Budget, consider limiting emergency funding requests to truly unforeseen or sudden events.⁹ We will continue to review DOD's efforts to implement these recommendations as part of our follow-up work on GWOT.

Scope and Methodology

To conduct our work, we analyzed applicable annual and supplemental appropriations from fiscal year 2001 through fiscal year 2009 as of December 2008, the latest GWOT appropriations provided. We also analyzed DOD's monthly cost of war reports from September 2001 through December 2008, the latest data available. Specifically, we identified appropriated amounts primarily intended for GWOT and reported GWOT obligations for each operation, military service, and appropriation account.

We will continue to review DOD's funding and reported obligations for GWOT, including the reliability of the reported obligations. We are also reviewing DOD's methodology for reporting GWOT costs by contingency operations, including the types of costs reported for those operations. We plan to report on this work in March 2009.

We conducted this performance audit from February 2009 to March 2009 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Summary

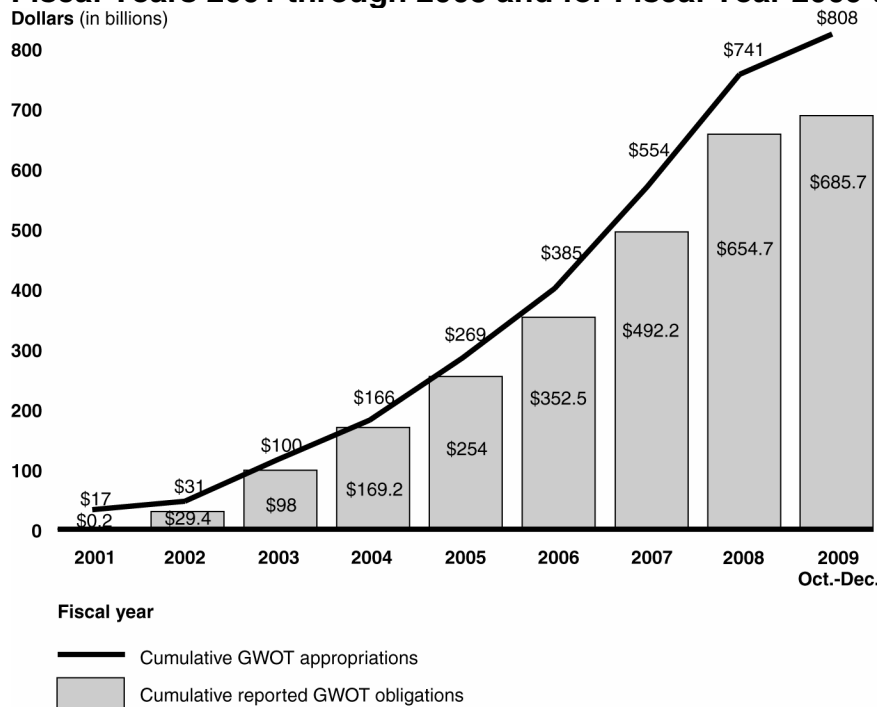
As of December 2008, Congress has appropriated a total of about \$808 billion primarily for GWOT operations since 2001. Of that amount, about \$187 billion has been provided for fiscal year 2008 and about \$65.9 billion has been appropriated for use in fiscal year 2009. DOD plans on requesting an additional \$75.5 billion in supplemental funds for fiscal year 2009. DOD has reported obligations of about \$685.7 billion for military operations in support of the war from fiscal year 2001 through fiscal year 2008 and for fiscal year 2009 (October

⁹GAO-08-68.

through December 2008). The \$122.3 billion difference¹⁰ between DOD's appropriations and reported obligations can generally be attributed to multiyear funding for procurement; military construction; and research, development, test, and evaluation from previous GWOT-related appropriations¹¹ that have yet to be obligated; and obligations for classified and other items, which DOD considers to be non-GWOT related, that are not reported in DOD's cost-of-war reports.¹² As part of our ongoing work, we are reviewing DOD's rationale for reporting its GWOT-related obligations.

Figure 1 shows the increase in DOD's cumulative reported GWOT obligations and cumulative GWOT appropriations from fiscal year 2001 through fiscal year 2008 and through the first quarter of fiscal year 2009 (October through December 2008). The appropriations amount includes the fiscal year 2009 appropriation of \$65.9 billion. The appropriations amount does not include the additional \$75.5 billion in supplemental appropriations that DOD plans on requesting for the remainder of fiscal year 2009.

Figure 1: DOD's Cumulative Reported GWOT Appropriations and Obligations for Fiscal Years 2001 through 2008 and for Fiscal Year 2009 through December 2008



Source: GAO analysis of DOD and appropriations data.

Notes: Appropriations amounts reflect totals provided in supplemental and annual appropriations legislation. Reported GWOT obligations include Operation Noble Eagle, Operation Enduring Freedom, and Operation Iraqi Freedom, and generally reflect costs reported in DOD's cost-of-war reports. However, the fiscal year 2002 and 2003 figures include about \$20.1 billion that according to DOD officials was war related but not reported in DOD's cost-of-war reports. GAO has assessed the reliability of DOD's obligation data and found significant problems, such that these data may not accurately reflect the true dollar value of GWOT obligations.

¹⁰We calculated this difference by comparing available data on appropriations and reported obligations.

¹¹Appropriations for military personnel and operation and maintenance are usually available for 1 year, while appropriations for research, development, test and evaluation are usually available for 2 years; procurement funds (with the exception of ship building funds, which are sometimes available longer) are usually available for 3 years; and military construction funds are usually available for 5 years.

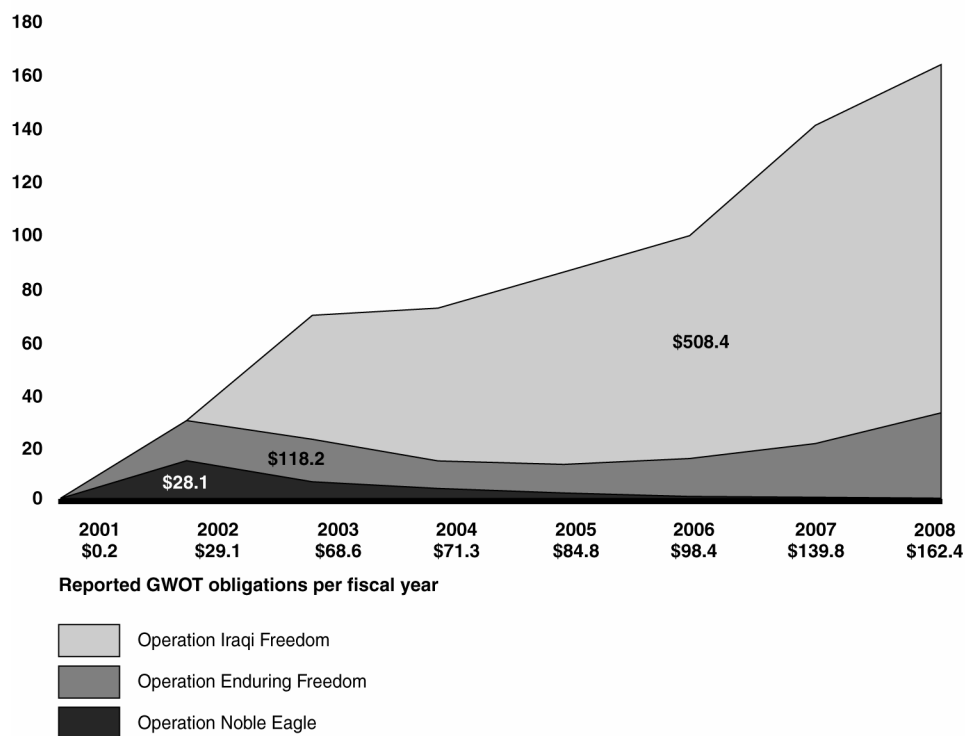
¹²We have not reviewed DOD's determination of what appropriations should be considered non-GWOT.

Of DOD's total cumulative reported obligations for GWOT through December 2008 (about \$685.7 billion), about \$533.5 billion is for operations in and around Iraq as part of Operation Iraqi Freedom, and about \$124.1 billion is for operations in Afghanistan, the Horn of Africa, the Philippines, and elsewhere as part of Operation Enduring Freedom. The remaining about \$28.1 billion is for operations in defense of the homeland as part of Operation Noble Eagle.

As figure 2 shows, DOD's reported obligations for Operation Iraqi Freedom have consistently increased each fiscal year since operations began. The increases in reported obligations for Operation Iraqi Freedom are in part due to continued costs for military personnel, such as military pay and allowances for mobilized reservists, and for rising operation and maintenance expenses, such as higher contract costs for housing, food, and services and higher fuel costs. In addition, the need to repair and replace equipment because of the harsh combat and environmental conditions in theater and the ongoing costs associated with the surge strategy announced in January 2007, which provided for the deployment of additional troops, have further increased obligations for Operation Iraqi Freedom. In contrast, DOD's reported obligations for Operation Noble Eagle have consistently decreased since fiscal year 2003, largely because of the completion of repairs to the Pentagon and upgrades in security at military installations that were onetime costs, as well as a reduction in combat air patrols and in the number of reserve personnel guarding government installations. Reported obligations for Operation Enduring Freedom have ranged from \$10.3 billion to \$20.1 billion each fiscal year since 2003. Recent increases in reported obligations for Operation Enduring Freedom are in part caused by higher troop levels in Afghanistan, the costs associated with training Afghan security forces, and the need to repair and replace equipment after several years of ongoing operations.

Figure 2: DOD’s Reported GWOT Obligations for Fiscal Years 2001 through 2008 by Operation

Dollars (in billions)



Source: GAO analysis of DOD data.

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

In fiscal year 2009, through December 2008, DOD reported obligations of about \$31.0 billion, which are about one fifth of the total amount of obligation it reported for all of fiscal year 2008. Reported obligations for Operation Iraqi Freedom for the same period continue to account for the largest portion of total reported GWOT obligations by operation—about \$25.1 billion. In contrast, reported obligations associated with Operation Enduring Freedom total about \$5.9 billion, and reported obligations associated with Operation Noble Eagle total about \$50.0 million.

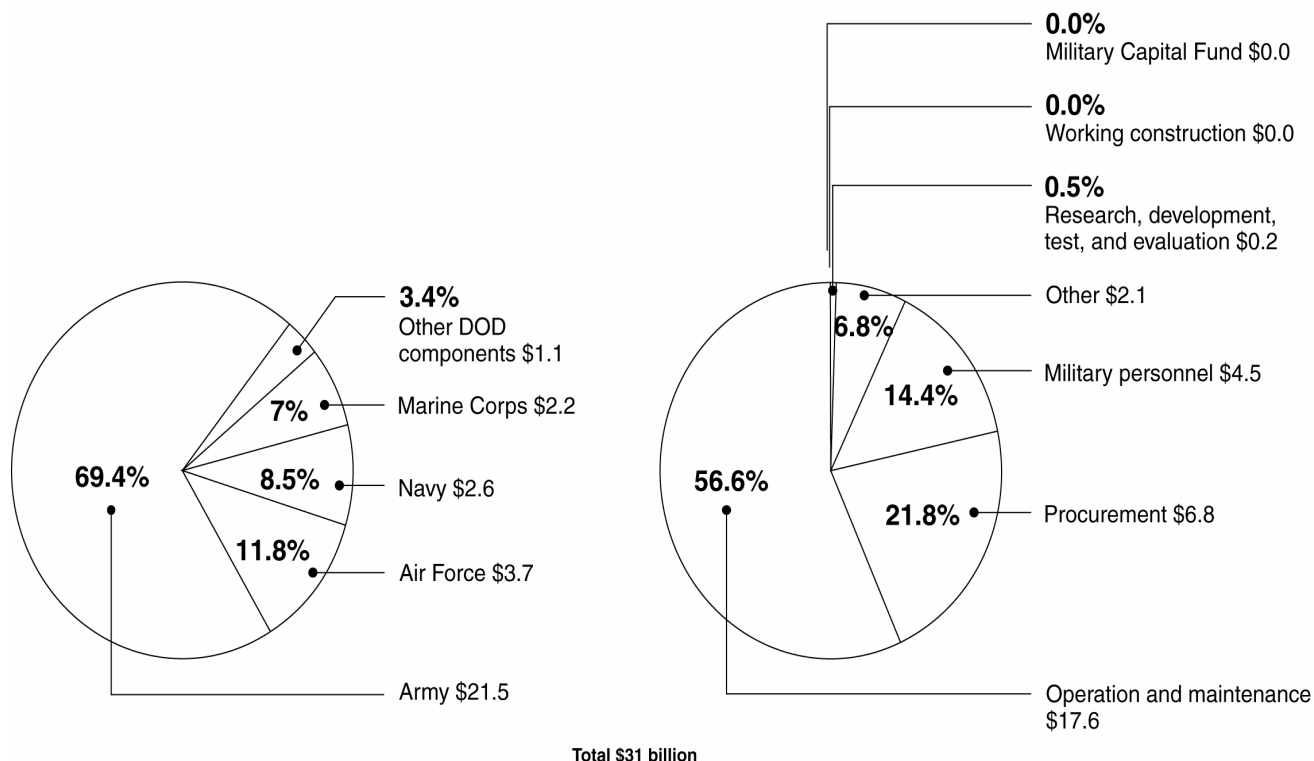
The Army accounts for the largest portion of reported obligations for fiscal year 2009 through December 2008—about \$21.5 billion, six times higher than the almost \$3.7 billion in obligations reported for the Air Force, the military service with the next greatest reported amount. Among appropriation accounts, operation and maintenance, which includes items such as support for housing, food, and services; the repair of equipment; and transportation to move people, supplies, and equipment, accounts for the largest reported obligations—about \$17.6 billion. Reported obligations for the procurement account represent about 21.8 percent of reported obligations or about \$6.8 billion.

Figure 3 shows DOD’s reported obligations for fiscal year 2009 through December 2008 by DOD component and appropriation account.

Figure 3: DOD's Reported GWOT Obligations for Fiscal Year 2009, by DOD Component and Appropriation Account, as of December 2008

By DOD component (dollars in billions)

By appropriation account (dollars in billions)



Source: GAO analysis of DOD data.

Notes: Totals may not add to rounding. The "Other" portion of the appropriation account pie chart includes programs designed to reimburse coalition countries for logistical and military support, to train and equip the Afghan National Army and Armed Forces of Iraq, and to execute the Commanders Emergency Response Program. GAO has assessed the reliability of DOD's obligation data and found significant problems, such that these data may not accurately reflect the true dollar value of GWOT obligations.

Agency Comments and Our Evaluation

In written comments on a draft of this report, DOD noted our report stated that the Department is continuing to take steps to improve GWOT cost reporting and mentioned its new GWOT "Status of Funds" report and the implementation of its revised reporting system. According to DOD, this process is continuing to mature, but serves as an example of DOD's efforts to improve transparency, reliability and usefulness of cost of war reporting. See enclosure I for DOD's response.

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

If you or your staff have any questions about this report, please contact me at (202) 512-9619 or pickups@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in enclosure II.

A handwritten signature in black ink that reads "Sharon L. Pickup". The signature is written in a cursive, flowing style.

Sharon L. Pickup
Director, Defense Capabilities and Management

Enclosures - 2

List of Committees

The Honorable Carl Levin
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Committee on Armed Services
United States Senate

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

Enclosure I
Comments from the Department of Defense



COMPTROLLER

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

MAR 25 2009

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

Dear Ms. Pickup:

This is the Department of Defense (DoD) response to the Government Accountability Office (GAO) Draft Report GAO-09-449R, "*GLOBAL WAR ON TERRORISM: Reported Obligations for the Department of Defense*," dated March 16, 2009, (GAO Code 351313).

We appreciate the opportunity to comment on the draft report. As you note in your report, the Department is continuing to take steps to improve cost reporting for these activities. In October 2008, the Department replaced the Cost of War (CoW) report with the Status of Funds report, which includes subsidiary reports for the Military Personnel and Operation and Maintenance accounts. In addition, the Department has implemented a revised reporting system, the Contingency Reporting and Contingency Operations Reporting and Analysis Service (CORAS). This process is continuing to mature but is a primary example where the Department has taken steps to improve the transparency, reliability and usefulness of cost of war reporting.

Sincerely,

A handwritten signature in cursive script that reads "Robert F. Hale".

Robert F. Hale

Enclosure II

GAO Contact and Staff Acknowledgments

GAO Contact

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

Acknowledgments

In addition to the contact named above, Ann Borseth, Assistant Director; Bruce Brown; Ron La Due Lake; Lonnie McAllister; and Eric Petersen made key contributions to this report.

(351313)

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