

Since 2001, Congress has provided the Department of Defense (DOD) with about \$808 billion in supplemental and annual appropriations, as of September 2008, primarily for military operations in support of the Global War on Terrorism (GWOT). DOD's reported annual obligations 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. 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 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

DOD compiles and reports monthly and cumulative incremental obligations incurred to support GWOT in a monthly Supplemental and Cost of War Execution Report. 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 and military service or defense agency. The monthly cost reports are typically compiled within the 45 days after the end of the reporting month in which the obligations are incurred. DOD has prepared monthly reports on the obligations incurred for its involvement in GWOT since fiscal year 2001.

Section 1221 of the National Defense Authorization Act for Fiscal Year 2006 requires us to submit quarterly updates to Congress on the costs of Operation Iraqi Freedom and Operation Enduring Freedom based on DOD's monthly Supplemental and Cost of War Execution Reports. This report, which responds to this requirement, contains our analysis of DOD's reported obligations for military operations in support of GWOT through September 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 2008 reported obligations, the latest data available for GWOT by military service and appropriation account

Over the years, we have conducted a series of reviews examining funding and reported obligations for military operations in support of GWOT. Our prior work has found the data in DOD's monthly Supplemental and Cost of War Execution Report to be of questionable reliability. Consequently, we are unable to ensure that DOD's reported obligations for GWOT are complete, reliable, and accurate, and they 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 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

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 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.<sup>8</sup> We will continue to review DOD's efforts to implement these recommendations as part of our follow-up work on GWOT

To conduct our work, we analyzed applicable annual and supplemental appropriations from fiscal year 2001 through fiscal year 2008, the latest GWOT appropriations provided, as well as DOD's appropriation allocation documents. We also analyzed DOD's monthly Supplemental and Cost of War Execution Reports from September 2001 through September 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 are continuing to review DOD's fiscal year 2008 funding and reported obligations, including the reliability of the reported obligations. We plan to report on this work in March 2009

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

obtained provides a reasonable basis for our findings and conclusions based on our audit objectives

As of September 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. In addition, about \$65.9 billion was appropriated in fiscal year 2008 for fiscal year 2009 but was not available for obligation in fiscal year 2008. DOD will likely request additional funds for fiscal year 2009. DOD has reported obligations of about \$654.7 billion for military operations in support of the war from fiscal year 2001 through fiscal year 2008. The \$152.2 billion difference<sup>9</sup> 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 appropriations that have yet to be obligated; and obligations for non-DOD classified and other activities, which DOD considers to be non-GWOT related, that are not reported in DOD's cost-of-war reports. This difference also includes the \$65.9 billion appropriated for fiscal year 2009. As part of our ongoing work, we are reviewing DOD's rationale for reporting its GWOT related obligations

Of DOD's total cumulative reported obligations for GWOT for fiscal year 2008 (about \$654.7 billion), about \$508.4 billion is for operations in and around Iraq as part of Operation Iraqi Freedom, and about \$118.2 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

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 about \$10.3 billion to about \$32.0 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.

In fiscal year 2008, DOD's total reported obligations of about \$162.4 billion which is about 16 percent more than the total amount of obligations it reported for all of fiscal year 2007. Reported obligations for Operation Iraqi Freedom continue to account for the largest portion of total reported GWOT obligations by operation—about \$130.3 billion. In contrast, reported obligations associated with Operation Enduring Freedom total about \$32.0 billion, and reported obligations

associated with Operation Noble Eagle total about \$150.0 million. As part of our work, we are evaluating DOD's methodology for attributing cost to specific contingency operations

The Army accounts for the largest portion of reported obligations for fiscal year 2008 — about \$115.0 billion, eight times higher than the almost \$14.2 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 \$65.5 billion. Reported obligations for the procurement account are about 26 percent of reported obligations or about \$42.5 billion. Of the \$58.2 billion provided to DOD for procurement in fiscal year 2008, approximately 27 percent, or \$15.7 billion, has yet to be obligated and remains available in fiscal year 2009

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