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GLOBAL WAR ON TERRORISM

Observations on Funding, Costs, and Future Commitments

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Comptroller General of the United States

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Highlights

Highlights of GAO-06-885T, a testimony to the Chairman, Subcommittee on National Security, Emerging Threats, and International Relations, Committee on Government Reform, House of Representatives

GLOBAL WAR ON TERRORISM

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Why GAO Did This Study

After the terrorist attacks of September 11, 2001, the President announced a Global War on Terrorism (GWOT), requiring the collective instruments of the entire federal government to counter the threat of terrorism. Ongoing military and diplomatic operations overseas, especially in Iraq and Afghanistan, constitute a key part of GWOT. These operations involve a wide variety of activities such as combating insurgents, civil affairs, capacity building, infrastructure reconstruction, and training military forces of other nations. The U.S. has reported substantial costs to date for GWOT related activities and can expect to incur significant costs for an unspecified time in the future, requiring decision makers to consider difficult trade-offs as the nation faces increasing long-range fiscal challenges.

GAO has issued several reports on current and future financial commitments required to support GWOT military operations, as well as diplomatic efforts to stabilize and rebuild Iraq. This testimony discusses (1) the funding Congress has appropriated to the Department of Defense (DOD) and other U.S. government agencies for GWOT-related military operations and reconstruction activities since 2001; (2) costs reported for these operations and activities and the reliability of DOD's reported costs, and (3) issues with estimating future U.S. financial commitments associated with continued involvement in GWOT.

www.gao.gov/cgi-bin/getrpt?GAO-06-885T.

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

What GAO Found

Since 2001, Congress has appropriated about $430 billion to DOD and other government agencies for military and diplomatic efforts in support of GWOT. This funding has been provided through regular appropriations as well as supplemental appropriations, which are provided outside of the normal budget process. Since September 2001, DOD has received about $386 billion for GWOT military operations. In addition, agencies including the Department of State, DOD, and the Agency for International Development have received since 2001 about $44 billion to fund reconstruction and stabilization programs in Iraq ($34.5 billion) and Afghanistan ($9 billion) and an additional $400 million to be used in both Iraq and Afghanistan.

Since 2001, U.S. government agencies have reported significant costs associated with GWOT, but GAO has concerns with the reliability of DOD's reported cost data. Through April 2006, DOD has reported about $273 billion in incremental costs for GWOT-related operations overseas—costs that would not otherwise have been incurred. DOD's reported GWOT costs and appropriated amounts differ generally because DOD's cost reporting does not capture some items such as intelligence and Army modular force transformation. Also, DOD has not yet used funding made available for multiple years, such as procurement and military construction. GAO's prior work found numerous problems with DOD's processes for recording and reporting GWOT costs, including long-standing deficiencies in DOD's financial management systems and business processes, the use of estimates instead of actual cost data, and the lack of adequate supporting documentation. As a result, neither DOD nor the Congress reliably know how much the war is costing and how appropriated funds are being used or have historical data useful in considering future funding needs. GAO made several recommendations to improve the reliability and reporting of GWOT costs. In addition to reported costs for military operations, U.S. agencies have obligated about $23 billion of $30 billion received for Iraqi reconstruction and stabilization, as of January 2006.

U.S commitments to GWOT will likely involve the continued investment of significant resources, requiring decision makers to consider difficult trade-offs as the nation faces increasing fiscal challenges in the years ahead; however, predicting future costs is difficult as they depend on several direct and indirect cost variables. For DOD, these include the extent and duration of military operations, force redeployment plans, and the amount of damaged or destroyed equipment needed to be repaired or replaced. Future cost variables for other U.S. government agencies include efforts to help form governments and build capable and loyal security forces in Afghanistan and Iraq, and meet the healthcare needs of veterans, including providing future disability payments and medical services.

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss our work to date on the funding, reported costs,[1] and future commitments of the Global War on Terrorism (GWOT) overseas. I recently testified on the National Strategy for Victory in Iraq, in which I stated that there are some positive attributes to the new strategy, including a clear purpose and scope.[2] The strategy also identifies U.S. involvement in Iraq as a "vital national interest and the central front in the war on terror." However, among its deficiencies is the absence of current and future cost data for Iraq. After 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. The United States and its partners are attacking terrorists both at home and abroad, denying terrorists sanctuary and sponsorship, disrupting the financing of terror, and building and maintaining a united global front against terrorism. Ongoing military and diplomatic operations overseas constitute a key part of GWOT and involve a wide variety of activities such as combating insurgents, civil affairs, capacity building, reconstruction operations, and training military forces of other nations. These operations are currently focused on Iraq and Afghanistan. Clearly, costs to the United States in financial terms in no way compare to the loss of human life. To date, over 2,800 military personnel have died as a result of GWOT operations and many more have been wounded in action.

As I have highlighted in previous testimony, our nation is not only threatened by external security threats, but also from within by growing fiscal imbalances due primarily to known demographic trends and rising health care costs.[3] These trends are compounded by the near-term deficits arising from new discretionary and mandatory spending as well as lower revenues as a share of the economy. If left unchecked, these fiscal imbalances will ultimately impede economic growth, have an adverse effect on our future standard of living, and in due course affect our ability

[1]For purposes of this testimony, the term "costs" refers to the obligations that have been incurred by U.S. agencies in support of GWOT. Obligations are incurred 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.

[2] GAO, *Rebuilding Iraq: More Comprehensive National Strategy Needed to Help Achieve U.S. Goals and Overcome Challenges,* GAO-06-953T (Washington, D.C.: July 11, 2006).

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

to address key national and homeland security needs. These factors create the need to make choices that will only become more difficult and potentially disruptive the longer they are postponed. The United States' commitment to GWOT will likely involve the continued investment of significant resources, requiring decision makers to consider difficult trade-offs as the nation faces increasing fiscal challenges, including a growing debt burden and interest costs on such debt, in the years ahead.

My testimony today will focus on the financial commitments required to support military operations associated with GWOT in Iraq and Afghanistan, as well as diplomatic efforts to stabilize and rebuild Iraq. Specifically, I will discuss (1) the funding Congress has appropriated to the Department of Defense (DOD) and other U.S. government agencies for GWOT-related military operations and reconstruction and stabilization activities since 2001, (2) costs reportedly incurred for these operations and activities and the reliability of DOD's reported costs, and, (3) issues with estimating the future financial commitments associated with the United States' continued involvement in GWOT.

In preparing this testimony, we have relied on previously issued GAO reports[4] and testimonies on the costs and other aspects of military operations and reconstruction and stabilization activities, as well as a large body of ongoing work on GWOT-related topics. We performed our work in accordance with generally accepted government auditing standards.

Summary

Since the beginning of GWOT in 2001, Congress has appropriated about $430 billion to DOD and other U.S. government agencies for military and diplomatic efforts in support of GWOT. This funding has been provided through regular appropriations as well as supplemental appropriations, which are provided outside of the normal budget process. Since September 2001, DOD has received about $386 billion for GWOT military operations, including funding for homeland defense through Operation Noble Eagle. This $386 billion includes "bridge" funding in fiscal years 2005 and 2006 to continue GWOT operations until supplemental appropriations could be enacted. In addition, U.S. government agencies,

[4]For example, 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 GAO, *Rebuilding Iraq: Governance, Security, Reconstruction, and Financing Challenges,* GAO-06-697T (Washington, D.C.: Apr. 25, 2006).

including the Department of State (State), DOD, and the United States Agency for International Development (USAID), have received about $44 billion since 2001 to fund reconstruction and stabilization programs in Iraq ($34.5 billion) and Afghanistan ($9 billion) with an additional $400 million for the Commanders' Emergency Response Program in Iraq and Afghanistan. For fiscal year 2007, DOD has requested another $50 billion in bridge funding for military operations and other U.S. government agencies have requested $771 million for reconstruction and stabilization activities.

Since 2001, U.S. government agencies have reported hundreds of billions of dollars in costs associated with GWOT; however, we have previously reported on our concerns with DOD's data reliability and cost reporting.[5] DOD has reported incremental costs of about $273 billion for overseas GWOT-related activities through April 2006. This amount includes almost $215 billion for operations in Iraq and almost $58 billion for operations in Afghanistan, the Horn of Africa, the Philippines, and elsewhere.[6] These reported costs do not include obligations for intelligence and the Army's modular force transformation. The difference between the amount appropriated and DOD's reported costs through April 2006 can generally be attributed to unreported costs for intelligence and Army modular force transformation, as well as funding for procurement, military construction, and research, development, test, and evaluation, which can be obligated over multiple years, that has not yet been obligated. However, our prior work has found numerous problems with DOD's processes for recording and reporting costs for GWOT, including long-standing deficiencies in DOD's financial management systems and business processes, the use of estimates instead of actual costs, and the lack of adequate supporting documentation. For example, we found inadvertent double counting in a portion of DOD's reported costs amounting to almost $1.8 billion from November 2004 through April 2005. Furthermore, DOD's reported costs for GWOT operations overseas have grown steadily in each fiscal year through fiscal year 2005—from about $105 million in fiscal year 2001, to begin preparation for operations in Afghanistan, to about $81.5 billion in fiscal year 2005. With this steady growth, it is important to ensure that all commands seek to control costs to the extent possible. In addition to reported costs for military operations, about $23 billion has been obligated

[5] GAO-05-882.

[6] In addition to the costs for overseas operations, DOD has also reported obligations of $27.7 billion through April 2006 for operations in defense of the homeland U.S., under Operation Noble Eagle.

for Iraqi reconstruction and stabilization, as of January 2006. However, U.S. government agencies, other than DOD, do not formally track all GWOT costs. This, along with DOD's cost reliability and reporting problems, make it difficult for the decision makers to reliably know how much the war is costing, to determine how appropriated funds are being spent, and to use historical data to predict future trends.

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 increasing fiscal challenges in the years ahead. Predicting future costs will be difficult because they are dependent on several direct and indirect cost variables; however, they are likely to be in the hundreds of billions of dollars. Future cost variables for DOD include the extent and duration of military operations, the facilities that will be needed to support servicemembers overseas, force redeployment plans and the costs to repair and replace damaged or destroyed equipment used during operations. Future cost variables for other U.S. government agencies include the efforts to help form national and provincial governments and build management capacity as well as capable and loyal security forces in both Afghanistan and Iraq. There will also be further need for funding reconstruction activities to restore, sustain, and protect critical infrastructure. Another long-term cost associated with GWOT will be caring for veterans. The Department of Veterans' Affairs (VA) estimated that more than 100,000 GWOT veterans are currently using VA facilities, and future healthcare costs will likely increase as more servicemembers require treatment from injuries and mental health conditions such as post-traumatic stress disorder. There will also be future commitments associated with payments to those veterans with long-term disabilities. With GWOT costs likely continuing for the foreseeable future, decision makers will have to carefully weigh priorities and make difficult financial decisions. In assessing trade-offs, we would encourage DOD to consider moving other GWOT costs into the baseline budget, as it has done with Operation Noble Eagle. This is consistent with our prior suggestion that, once an operation reaches a known level of effort and costs are more predictable, more funding should be built into the baseline budget.

Background

The United States is engaged in a comprehensive effort to protect and defend the homeland and defeat terrorism. Using all instruments of national power, the United States and its partners are attacking terrorists both at home and abroad, denying terrorists sanctuary and sponsorship, disrupting the financing of terror, and building and maintaining a united

global front against terrorism. After the terrorist attacks of September 11, 2001, military operations began with Operation Noble Eagle, which is aimed at defending the U.S. homeland from terrorist attacks, and Operation Enduring Freedom, which takes place principally in and around Afghanistan, but also covers additional operations in the Horn of Africa, the Philippines, and elsewhere. In 2003, DOD began Operation Iraqi Freedom, which takes place in and around Iraq. DOD and the military services are responsible for carrying out these operations. Recently, DOD reported about 132,000 U.S. military personnel are deployed to Iraq and about 15,000 are deployed to Afghanistan.

Diplomatic efforts are also underway to rebuild areas in and around Iraq and Afghanistan, as well as to assist these countries in rebuilding their governments and creating secure nations. State is responsible for all U.S. activities in Iraq except security and military operations. Other U.S. government agencies also play significant roles in this reconstruction effort, including the USAID and the U.S. Army Corps of Engineers. The Multi-National Security Transition Command-Iraq, which operates under the Multi-National Force-Iraq, leads coalition efforts to train, equip, and organize Iraqi security forces. In Afghanistan, USAID manages the majority of reconstruction programs and operations. Other U.S. agencies provide additional assistance, including DOD. Members of the North Atlantic Treaty Organization also play a key role in training and equipping Afghan forces.

Since 2001, DOD has prepared reports on the costs of its involvement in GWOT. The costs of military contingency operations are referred to as "incremental costs," which are costs that are directly attributable to the operation and would not otherwise 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 for 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, along with other information, in discussing the cost of the war. It is also used in formulating future budget requests to fund GWOT. The 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 consisting of 55 cost categories to improve contingency cost reporting consistency between its multiple services and agencies. Examples of cost categories include facilities/base support and airlift. 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. The regulation incorporates the common cost categories and multiple subcategories, which were established in 1998 and updated in September 2005, that are used to report DOD's monthly GWOT costs.

Obligations are the foundation of all GWOT cost reporting. For example, operation and maintenance obligations in support of GWOT represent tens of thousands, if not hundreds of thousands, of individual transactions ranging in value from one penny to millions of dollars. When obligations are incurred, the military services enter them into their accounting systems using accounting codes. Using the Army as an 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.

Funding for the Global War on Terrorism

Since 2001, Congress has appropriated about $430 billion to DOD and other U.S. government agencies for military operations and reconstruction and stabilization activities supporting GWOT. Much of the funding has come in the form of supplemental appropriations. Some funding has also come through the normal baseline budget appropriated to the departments. For example, in fiscal years 2005 and 2006, DOD was provided so-called "bridge" funding—$25 billion and $50 billion, respectively—through its regular appropriation, which was intended to fund operations from the beginning of the fiscal year until a supplemental appropriation could be enacted. Also, funds are appropriated to the various appropriations accounts for each department and are not specifically designated for operations in Iraq or Afghanistan. Since

September 2001, DOD has received about $386 billion to fund military operations supporting GWOT. In addition, about $44 billion has been made available to U.S. agencies—including DOD, USAID, and State—for reconstruction and stabilization efforts in Iraq ($34.5 billion) and Afghanistan ($9 billion) with an additional $400 million for use in Iraq and Afghanistan through the Commander's Emergency Response Program. These efforts include training and equipping of security forces and repairing critical infrastructure. (See table 1.) For fiscal year 2007, DOD has requested another $50 billion in bridge funding for military operations and other U.S. government agencies have requested $771 million for reconstruction and stabilization activities.

Table 1: Total GWOT Military Operations and Reconstruction and Stabilization Funding for Fiscal Years 2001 through 2006

Budget authority in millions

	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	Total
Military operations[a]	16,623	17,749	73,546	61,400	100,888[b]	116,022	**386,228**
Reconstruction and stabilization[c]	-	500	4,800	21,800	9,100	7,730	**43,930**
Total	**16,623**	**18,249**	**78,346**	**83,200**	**109,988**	**123,722**	**430,128**

Source: GAO.

[a]GAO analysis based on congressional appropriations acts.

[b]Of this total, $25 billion was available to DOD in FY 2004 for military operations.

[c]GAO analysis for Iraq and Congressional Research Service reports for Afghanistan. Reconstruction and Stabilization funds are for Iraq and Afghanistan only.

The $386 billion DOD has received to fund military operations supporting GWOT also includes funding for homeland defense under Operation Noble Eagle. This operation was funded through supplemental appropriations for DOD until fiscal year 2005, when it was moved into DOD's baseline budget. This movement is consistent with our prior suggestion that, once an operation reaches a known level of effort and costs are more predictable, more funding should be built into the baseline budget. This $386 billion also includes funding for DOD's intelligence programs, as well as other DOD initiatives, such as the Army's efforts to transform its traditional division-based force into a more rapidly deployable modular force that is better able to conduct joint and expeditionary operations. Beginning in fiscal year 2007, the Army's modular transformation will be included in DOD's regular baseline appropriation. Prior to passage of the most recent supplemental appropriation, military service officials told us that they had already spent the $50 billion bridge that was included in the fiscal year 2006 defense appropriations act and had started to use baseline appropriations for GWOT activities, as well as undertake cost-cutting

measures until the supplemental was enacted.[7] DOD has requested another $50 billion in bridge funding as part of its fiscal year 2007 budget.

In addition to the funding provided to support military operations, Congress has appropriated about $44 billion to DOD and other U.S. government agencies to support important reconstruction and stabilization activities in Iraq and Afghanistan since 2001. These activities support GWOT objectives because they help train and equip local security forces, and help establish the foundations of a sound economy with the capacity to deliver essential services, such as clean water and reliable electricity. A growing economy also provides employment opportunities as an alternative to recruitment efforts made by insurgents. Since 2003, about $34.5 billion[8] has been provided to support these types of activities in Iraq and, since September 2001, about $9 billion to support these activities in Afghanistan. The recent supplemental appropriation also provided an additional $400 million for the Commander's Emergency Response Program for use in Iraq and Afghanistan. This would bring total reconstruction and stabilization funding to over $44 billion.

Funding for reconstruction and stabilization efforts has supported the following activities, among others:

- **Training and equipping of Iraqi security forces**. Since fiscal year 2003, about $11.7 billion has been made available for U.S. security and justice programs in Iraq, including funds to train and equip the Iraqi security forces. Over the past several months, the Secretaries of State and Defense have cited progress in developing Iraqi security forces, and reported that the numbers of operational army personnel and trained and equipped police have increased from about 142,000 in March 2005 to about 266,000 in June 2006. However, as we have previously reported, the number of trained and equipped forces does not provide reliable information on their capabilities.[9] In addition, the administration received $3.0 billion in the recent fiscal year 2006

[7]Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery, 2006, Pub. L. No. 109-234 (2006).

[8]The $34.5 billion includes funding for the following activities and programs: security and justice; restoring essential services such as oil, electricity, and water; other sectors; and administrative costs.

[9]GAO, *Rebuilding Iraq: Preliminary Observations on Challenges in Transferring Security Responsibilities to Iraqi Military and Police,* GAO-05-431T, (Washington, D.C., Mar. 14, 2005).

supplemental appropriation to continue moving the Iraqi security forces toward stand-alone operational capacity.

- **Restoring Iraq's essential services**. Since fiscal year 2003, about $10.5 billion has been made available for restoring essential services in Iraq, specifically activities in the oil, water, health, and electricity sectors. U.S. reconstruction efforts have helped increase electricity generation capacity, restart crude oil production, and restore some water treatment plants. However, key reconstruction goals in the oil, electricity, and water sector have yet to be achieved due to security, management, and sustainment challenges in U.S.-funded projects. The administration received an additional $1.5 billion in the recent supplemental appropriation for reconstruction assistance to Iraq, including $50 million to USAID's Iraq Community Action Program and $50 million for democracy, rule of law, and reconciliation programs.

- **Training and equipping the Afghan national army**. The United States led the international effort to train and equip the Afghan national army, which is crucial to both long-term security and U.S. counter-terror efforts. About 26,500 troops have been trained and equipped and the defense force is projected to reach up to 70,000 military and civilian personnel, according to State reporting. The administration has received $1.9 billion in the fiscal year 2006 supplemental appropriation to further prepare Afghan security forces to operate without U.S. support.

The U.S. government also funds a variety of other programs that indirectly support GWOT. For example, Congress provides funding for security assistance on a worldwide basis to help train or equip foreign security forces (military and police). In fiscal year 2006, Congress provided an estimated $4.5 billion for two security assistance programs, the International Military Education and Training program and Foreign Military Financing program. In addition, the U.S. government reported costs of $1.2 billion on worldwide public diplomacy programs in fiscal year 2005.

The U.S. Has Reported Hundreds of Billions in Costs of Ongoing Military and Reconstruction and Stabilization Operations, but Data Weaknesses Make It Difficult to Reliably Know Cost of Military Operations

Since GWOT began in 2001, U.S. government agencies have reported hundreds of billions of dollars in costs for overseas military and reconstruction operations; however, as we have previously reported, data reliability and reporting concerns make it difficult to know DOD's total GWOT costs. Since 2001, DOD has reported costs of about $273 billion on overseas GWOT military operations through the end of April 2006. The department's reported costs have grown steadily from a reported about $105 million in fiscal year 2001, to begin preparations for operations in Afghanistan, to over $81.5 billion in fiscal year 2005. U.S government agencies have reported costs of about $23 billion for Iraqi reconstruction and stabilization. However, U.S. government agencies, other than DOD, do not formally track all GWOT costs. This, along with DOD's cost reliability and reporting problems, make it difficult for the decision makers to reliably know how much the war is costing, to determine how appropriated funds are being spent, and to use historical data to predict future trends.

DOD's Reported Costs for Military Operations

Since the attacks of September 11, 2001, DOD has reported cumulative incremental costs of about $273 billion, through the end of April 2006, on military operations overseas in support of GWOT. This amount includes almost $215 billion for operations in Iraq and almost $58 billion on operations in Afghanistan, the Horn of Africa, the Philippines, and elsewhere. This does not include obligations for intelligence activities and the Army's modular force transformation. The difference between the amount appropriated and DOD's reported costs through April 2006 can generally be attributed to these unreported obligations for intelligence and Army modular force transformation, as well as funding for procurement, military construction, and research, development, test, and evaluation, which can be obligated over multiple years, that has not yet been obligated. In addition to the costs for overseas operations, DOD has also reported obligations of $27.7 billion through April 2006 for operations in defense of the homeland U.S., under Operation Noble Eagle.

To date, the largest reported costs for the overseas GWOT operations have typically been associated with two of DOD's appropriations accounts—operation and maintenance and military personnel. Operation and maintenance expenses cover a number of things, such as operational support for housing, food, and services; transportation to move people and supplies and equipment into the theaters; and the repair of equipment. Military personnel expenses include military pay and allowances for mobilized reservists, as well as the special payments or allowances, such as imminent danger pay and the family separation allowance that all

qualifying military personnel receive. While expenses for operation and maintenance, and military personnel have tended to be among the highest, DOD has also reported incurring costs for procurement of equipment and other items.

As we have reported in the past, we have 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. As we reported in September 2005, we found numerous problems with DOD's processes for recording and reporting costs for GWOT.[10] Factors affecting the reliability of DOD's reported costs include long-standing deficiencies in DOD's financial management systems and business processes, the use of estimates instead of actual costs, and the lack of supporting documentation. In at least one case, our work showed that some reported costs may have been materially overstated. Specifically, reported obligations for mobilized Army reservists in fiscal year 2004 were based primarily on estimated 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, we found inadvertent double counting in a portion of DOD's reported costs amounting to almost $1.8 billion from November 2004 through April 2005.

In our September 2005 report, we made several recommendations to the Secretary of Defense to (1) undertake a series of steps to ensure that the services' reported GWOT costs are accurate and reliable; (2) direct the Office of the Under Secretary of Defense (Comptroller) to oversee the services' efforts and to develop a systematic process to review and test the reliability of the overall GWOT reports; (3) expand the department's financial management regulation for contingency operations to include contingencies as large as GWOT; and (4) establish guidelines to control costs and require the services to keep the Comptroller's office informed of their efforts in this area.

Since the time of our report, we know that DOD has taken some measures in response to our recommendations intended to improve the reliability and accuracy of its cost reports, such as requiring the military services to identify variances in reported costs from month to month, and determine the causes. However, our initial review suggests that DOD and the services have yet to take sufficient action to fully implement these measures and

[10]GAO-05-882.

that certain weaknesses in cost reporting continue to exist. Without aggressive action on the part of DOD and the services, the reliability of cost reports will remain in question. Also, there has been an ongoing issue with the timeliness of DOD's cost reporting. For example, the cost reports for October through December 2005 were not issued until March 2006. To address this long-standing problem, Congress, in the National Defense Authorization Act for Fiscal Year 2006, directed that DOD provide the cost reports to GAO no later than 45 days after the end of the month being reported.[11] DOD has now provided GAO with the March and April cost reports on schedule.

DOD's Reported Costs Have Steadily Grown

DOD's reported costs for GWOT operations have grown steadily in each fiscal year through fiscal year 2005—from about $105 million in fiscal year 2001 to about $81.5 billion in fiscal year 2005. For fiscal year 2006, as of April 2006, DOD has reported obligations of about $49 billion; about $41.9 billion for Iraq and about $7.5 billion for Afghanistan. These amounts include about

- $22.5 billion in operating support, which pays for transportation, fuel, maintenance, housing, food, services, and other items;
- $5.3 billion for procurement of equipment and other items;
- $9.9 billion in military personnel costs, including special pays and allowances for deployed military personnel;
- $2.9 billion for personnel support, including clothing and medical support;
- $4.0 billion for transportation, including airlift and sealift;
- $2.6 billion in support for the Iraq Security Forces;
- $813 million for the Afghanistan Security Forces; and,
- $474 million in support of coalition forces.

Costs for the remainder of fiscal year 2006 are expected to be higher than DOD anticipated, in part because the Army has been unable to follow through with plans to close a number of forward operating bases and consolidate troops at some of the larger locations. Also, savings resulting from a United States and coalition hand-off of operations in Afghanistan to troops from nations representing the North Atlantic Treaty Organization is not expected to be realized until after fiscal year 2007. Furthermore, the

[11]Pub. L. No. 109-163, §1221(c) (2006).

rising cost of fuel is likely to push costs even higher than envisioned at the start of the fiscal year.

In examining the historical growth of reported overseas GWOT costs, the largest increase has been in operations and maintenance expenses. For example, between fiscal year 2002 and fiscal year 2005, DOD has reported increases in these expenses from about $7.6 billion to about $48.7 billion. According to DOD, some of this increase is attributable to higher fuel costs and increased operational support costs for contracts to provide housing, food, and services for the military locations in Iraq and Afghanistan. For the same time frames, reported obligations for military personnel have increased from about $3.4 billion to about $14.9 billion, and reported procurement obligations have increased from $0 to about $16.5 billion.

With the steady growth in reported GWOT costs, we believe there is a need to ensure that all commands seek to control costs to the extent possible. As we reported in September 2005, 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.[12] However, DOD has not established guidelines that would require commands to take steps to control costs and keep DOD informed of these steps as we recommended in our prior report. In the absence of such guidelines and reports, DOD cannot be sure that enough is being done to control costs.

U.S. Government Agencies Have Reported Obligating Most of Their Reconstruction and Stabilization Program Funding

U. S. government agencies have reported obligating $23 billion for Iraqi reconstruction and stabilization, as of January 2006. However, U.S. government agencies, other than DOD, do not formally track all GWOT costs. Among other uses, these funds have been used for infrastructure repair of the electricity, oil, water, and health sectors; training and equipping of Iraqi security forces (military and police); and administrative expenses.

State reports that the remaining funds will not be used for large reconstruction projects, but to sustain the projects that have already been built and to build greater capacity at the national, provincial, and municipal levels for better and more responsive governments.

[12]GAO-05-882.

Global War on Terrorism Costs Will Likely Continue for the Foreseeable Future

It appears the United State's military and diplomatic commitments in Iraq and Afghanistan will continue for the foreseeable future and are likely to be in the hundreds of billions of dollars. However, costs are difficult to predict because they depend on several direct and indirect cost variables. DOD's future costs will likely be affected by the pace and duration of military operations, the types of facilities needed to support troops overseas, force redeployment plans, and the amount of damaged or destroyed equipment that will need to be repaired or replaced. Other future costs to the U.S. government include nation-building and reconstruction efforts and treating injured GWOT veterans. These costs will require administration decision makers and Congress to consider difficult trade-offs as the nation faces increasing fiscal challenges in the years ahead.

Future DOD Costs

The future costs associated with DOD's commitments to GWOT depend on several variables, including (1) the extent and duration of operations, (2) the types of facilities that will be required to support troops overseas, and (3) the amount of equipment that will need to be restored or replaced. As DOD has done with Operation Noble Eagle, we would encourage the department to consider moving other GWOT costs into the baseline budget. This is consistent with our prior suggestion that, once an operation reaches a known level of effort and costs are more predictable, more funding should be built into the baseline budget.[13] Doing so will assist decision makers in determining investment priorities and making trade-offs among funding needs.

Extent and Duration of Military Operations

It is uncertain how long DOD will be engaged in a high pace of military operations associated with GWOT, making it difficult to predict costs associated with future troop levels and mission requirements. There has also been some discussion of reducing the number of troops in Iraq and Afghanistan. However, DOD officials have not announced information about the level or timing of any troop reduction or redeployment plans. While it would appear that reducing the number of troops in theater could lower costs for these operations, we have seen from previous operations in Bosnia and Kosovo that costs may rise due to the increased use of contractors to replace the military personnel. Bases still have to be maintained, even with fewer military members in them. Also, if the pace of

[13]GAO, *Bosnia: Costs Are Exceeding DOD's Estimate,* GAO/NSIAD-96-024BR (Washington, D.C.: July 25, 1996).

operations remains high because of security concerns or hostilities, costs for force protection, fuel, and other items could remain high.

Facilities to Support Overseas Troops

The United States does not currently have any basing agreements with Iraq. DOD has constructed facilities in Iraq and neighboring countries supporting missions in both Iraq and Afghanistan. Examples of facilities funded by military construction funds and other appropriations funding include force protection, airfield and road improvements, fuel handling, power and water distribution, and support facilities. The Secretary of Defense recently testified that already some 30 U.S. military bases have been returned to Iraqi control or closed altogether.[14] If the United States decides to enter into agreements with the new governments in Iraq and Afghanistan to have an enduring presence in these countries, costs to make our temporary bases into more permanent facilities could be significant.

Equipment Restoration and Replacement

Sustained GWOT operations have and will continue to take a toll on the condition and readiness of military equipment. The United States faces short-and long-term costs to maintain and restore equipment in theater, as well as reequip units as these missions end and the units return to their home stations. The uncertainties of how long ongoing operations will continue make it difficult to estimate future costs of maintaining and replacing this large amount of equipment.

The Army and Marine Corps will have the largest reset costs of the services. DOD has reported Army equipment usage rates have averaged two to eight times those of peacetime rates, while senior Marine Corps officials testified that the ground equipment used by the Corps in ongoing operations has experienced usage rates four to nine times that of peacetime rates. We recently testified that the services are currently funding their reset programs through the use of supplemental appropriations and plan to rely on supplemental appropriations for reset funding through at least fiscal year 2007.[15] According to recent testimony, the Army requirement for reset in fiscal year 2007 is $17.1 billion. The Army expects the requirement beyond fiscal year 2007 to be $12 billion to

[14]"Senate Armed Services Committee Holds Hearing on Defense Authorization", a speech presented by Secretary of Defense, Donald Rumsfeld at the Senate Armed Services Committee, Feb. 7, 2006.

[15]GAO, *Defense Logistics: Preliminary Observations on Equipment Reset Challenges and Issues for the Army and Marine Corps,* GAO-06-604T (Washington, D.C.: Mar. 30, 2006).

$13 billion per year through the end of the conflict and for a minimum of two to three years thereafter. In recent testimony, the Marine Corps stated that $11.9 billion is needed to manage the equipment in Operation Iraqi Freedom and Operation Enduring Freedom for fiscal year 2007 and an estimated additional requirement of $5.3 billion for each year that the conflict continues. The uncertainties of pace and duration of ongoing operations as well as the overall condition of major equipment items make it difficult to estimate future equipment reset costs. Equipment used in operations in Iraq will eventually require more intensive repair and overhaul than what is typically expected in peacetime. While the services are working to refine overall requirements, the total requirements and costs are unclear.

In addition to resetting a large number of major equipment items, the Army and Marine Corps must also plan to replace active, National Guard, and Reserve equipment left in theater to support ongoing operations. As we previously testified, in late 2003 the Army began to direct redeploying National Guard and Reserve units to leave their equipment in theater for use by deploying forces.[16] DOD policy requires the Army to replace equipment transferred to it from the Reserve Component including temporary withdrawals or loans in excess of 90 days,[17] yet at the time of our report in October 2005, the Army had neither created a mechanism in the early phases of the war to track Guard equipment left in theater nor prepared replacement plans for this equipment, because the practice of leaving equipment behind was intended to be a short-term measure. As of June 2006, only 3 replacement plans have been endorsed by the Secretary of Defense, all to replace National Guard equipment, while 22 plans are in various stages of approval. While the exact dollar estimate for these replacements will not be known until operations in Iraq cease, it will likely cost billions of dollars.

Future Nation-Building Costs

Future cost variables for other U.S. government agencies include the efforts to help form national and provincial governments and build management capacity in both Afghanistan and Iraq and build capable and loyal Iraqi and Afghani security forces. Also, there will be further need for funding to restore, sustain, and protect infrastructure. The new Iraqi

[16]GAO, *Reserve Forces: Army National Guard's Role, Organization, and Equipment Need to be Reexamined,* GAO-06-170T (Washington, D.C.: Oct. 20, 2005).

[17]Department of Defense Directive 1225.6, *Equipping the Reserve Forces* (Apr. 7, 2005).

government will need significant help in building the procurement, financial management, and accountability systems needed to govern and provide basic services to millions of its citizens. In addition, the 18 provincial governments will also require assistance in building management capacity and delivering results to the Iraqi people that make a difference in their daily lives. The costs of sustaining an Iraqi force of 266,000 personnel may require the Iraqi government to spend more money on personnel, maintenance, and equipment than originally anticipated. In addition, the new Iraqi security forces will have recurring training needs, and will need additional assistance in replacing lost or stolen equipment, and in developing improved logistical and sustainment capabilities.

While most of the reconstruction money for Iraq has been obligated, additional funds will be needed to finance remaining reconstruction needs, and to restore, sustain, and protect the infrastructure that has been built to date. For example,

- **Iraqi needs are greater than originally anticipated.** In the next several years, Iraq will need an estimated $30 billion to reach and sustain oil capacity of 5 million barrels per day, according to industry experts and U.S. officials. For electricity, they will need $20 billion through 2010, according to the Department of Energy's Energy Information Administration. Iraqi budget constraints and limited government managerial capacity limit its ability to contribute to future rebuilding efforts.

- **There is widespread corruption in Iraq.** Reconstruction efforts have not taken the risk of corruption into account when assessing the costs of achieving U.S. objectives in Iraq. The International Monetary Fund, the World Bank, Japan, and the European Union officials cite corruption in the oil sector as a special problem. In addition, according to State officials and reporting documents, about 10 percent of refined fuels are diverted to the black market, and about 30 percent of imported fuels are smuggled out of Iraq and sold for a profit.

- **Future international contributions for Iraq may be limited.** Most of the U.S. funds have been obligated and about 70 percent of the $13.6 billion in international pledges are in the form of loans.

- **The new U.S. embassy will be costly.** The embassy is projected to cost about $592 million, but the full cost of establishing a diplomatic presence across Iraq is still unknown.

- **Additional funds are needed to train and equip Afghan security forces.** The United States, other donors, and the new Afghan government face significant challenges to establishing viable Afghan army and police forces.[18] Although DOD and State have not yet prepared official cost estimates, the army and police programs could cost up to $7.2 billion to complete and about $600 million annually to sustain. Moreover, slow progress in resolving other Afghan security problems—the lack of an effective judiciary, the substantial illicit narcotics industry, and the continued presence of armed militias—threaten to undermine overall progress made toward providing nationwide security and ensuring the stability of the Afghan government.

Future Costs for Veterans

Lastly, one of the variables that can influence how much these efforts will cost the United States is the long-term cost of caring for our veterans. Both improvements in medical care in the field and in body armor have increased the survival rate of those who are seriously injured in combat. However, seriously injured survivors will likely require substantial long-term medical care from the VA, and may require extensive inpatient and home and community-based support services to assist those with traumatic brain injury, spinal cord injury, and other severely disabling conditions. We also know that many servicemembers have been exposed to intense and prolonged combat, which research has shown to be strongly associated with the risk of developing post-traumatic stress disorder. This disorder can occur after experiencing or witnessing a life-threatening event and is the most prevalent mental health disorder resulting from combat. Mental health experts predict that 15 percent or more of the servicemembers returning from operations in Iraq and Afghanistan will develop post-traumatic stress disorder.[19] In addition to an influx of more severely injured patients, the VA health care system will be required to serve large numbers of returning veterans with shorter term, more routine, health care needs.

[18]GAO, *Afghanistan Security: Efforts to Establish Army and Policy Have Made Progress, but Future Plans Need to be Better Defined,* GAO-05-575 (Washington, D.C.: June 30, 2005). The estimates in this report have not been updated.

[19]GAO, *Post-Traumatic Stress Disorder: DOD Needs to Identify the Factors Its Providers Use to Make Mental Health Evaluation Referrals for Servicemembers,* GAO-06-397 (Washington, D.C.: May 11, 2006).

VA has estimated that a little more than 100,000 veterans from operations in Iraq and Afghanistan are currently using VA health care services. VA originally underestimated by 77,000 the number of returning veterans who would use its health care, which in part required the VA to request additional appropriations in both fiscal years 2005 and 2006. Long-term estimates of how many returning veterans will use VA health care and the costs of that care are imprecise for a variety of reasons, including uncertainty about the duration of operations in the theaters as discussed above. But, current levels of usage by returning servicemembers indicate a growing VA health care workload and costs. Furthermore, while we have no clear idea of the magnitude, there will undoubtedly be long-term financial commitments associated with payments to veterans with long-term disabilities.

Mr. Chairman, this concludes my prepared statement. I would be happy to answer any questions you and the subcommittee members may have.

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