

September 2003

MILITARY OPERATIONS

Fiscal Year 2003 Obligations Are Substantial, but May Result in Less Obligations Than Expected



G A O

Accountability * Integrity * Reliability



Highlights of [GAO-03-1088](#), a report to congressional committees

MILITARY OPERATIONS

Fiscal Year 2003 Obligations Are Substantial, but May Result in Less Obligations Than Expected

Why GAO Did This Study

The Global War on Terrorism (GWOT)—principally involving operations in Afghanistan and Iraq—is being funded in fiscal year 2003 by Congress’s appropriation of almost \$69 billion, including almost \$16 billion in a transfer fund called the Iraqi Freedom Fund. To assist Congress in its oversight of funding for GWOT, GAO examined the obligation of GWOT funds and the implications for additional funding in fiscal year 2003 and the President’s request for fiscal year 2004 funds for several operations in Southwest Asia that were canceled after the budget was submitted.

What GAO Recommends

GAO recommends that the Department of Defense (DOD) take several actions to ensure that the fiscal year 2003 funds appropriated for GWOT are fully utilized, including that the Secretary of Defense review the services’ spending plans before transferring additional funds from the Iraqi Freedom Fund to ensure the funds will be obligated as planned. GAO also suggests that, given the results of this review, Congress not provide the \$1.4 billion requested by the President for DOD in fiscal year 2004 for continued support of Operations Desert Spring and Northern and Southern Watch since DOD canceled them. GAO made changes to its recommendations based on DOD’s comments on a draft of this report and DOD now agrees with the revised recommendations.

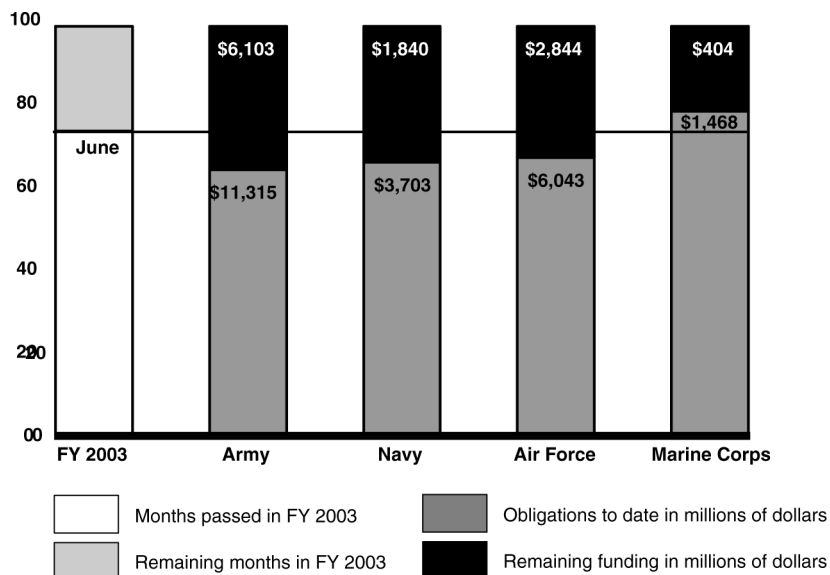
www.gao.gov/cgi-bin/getrpt?GAO-03-1088.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Neal Curtin at (757) 552-8100 or curtinn@gao.gov.

What GAO Found

While funds obligated by DOD for GWOT, including the war with Iraq, in fiscal year 2003 are substantial—about \$39 billion through June 2003—the funds appropriated by Congress appear to be sufficient for fiscal year 2003, and some of the services may not obligate all of the funds they were appropriated for fiscal year 2003. For example, at the end of June 2003, with 75 percent of the fiscal year completed, the services’ percentage of GWOT operation and maintenance funds that had been obligated ranged from a low of 65 percent for the Army to a high of 78 percent for the Marine Corps (see chart below). In contrast, the percentage of military personnel funds obligated by the three-fourths-of-the-fiscal-year mark by the services ranged from 72 to 75 percent of GWOT appropriations.

Obligations of GWOT Operation and Maintenance Funds, through June 2003
Percent of total



Source: GAO’s analysis of DOD data.

The military services believe they will obligate all the fiscal year 2003 funds appropriated to them. In addition, the services have received billions of dollars more in transfers from the Iraqi Freedom Fund. But GAO’s analysis suggests that they may not need all the funds transferred as well as further transfers in fiscal year 2003 for operation and maintenance, since considerable unobligated fiscal year 2003 funds remain in their direct appropriations.

Since DOD terminated Operations Desert Spring and Northern and Southern Watch in Southwest Asia in March 2003, the funds (\$1.4 billion) that were included in the President’s fiscal year 2004 budget to support those operations next year may no longer be necessary.

Contents

| | | |
|-------------------|--|----|
| Letter | | 1 |
| | Results in Brief | 2 |
| | Background | 3 |
| | Unobligated Balances Late in the Fiscal Year Raise Doubts about Services' Ability to Fully Obligate Their Fiscal Year 2003 GWOT Funds and Justification for Iraqi Freedom Fund Transfers | 5 |
| | The Termination of Operations Northern Watch, Southern Watch, and Desert Spring Obviates the Need for Requested Fiscal Year 2004 Funds for These Operations | 14 |
| | Conclusions | 14 |
| | Recommendations for Executive Action | 15 |
| | Matter for Congressional Consideration | 15 |
| | Agency Comments and Our Evaluation | 15 |
| Appendix I | Scope and Methodology | 19 |
| Tables | | |
| | Table 1: Operation and Maintenance Funds Provided to the Services for the Global War on Terrorism | 6 |
| | Table 2: Military Personnel Funds Provided to the Services for the Global War on Terrorism | 7 |
| Figures | | |
| | Figure 1: Location of DOD's Fiscal Year 2003 Contingency Operations | 4 |
| | Figure 2: Obligations of GWOT Operation and Maintenance Funds through June 2003 | 9 |
| | Figure 3: Obligations of GWOT Military Personnel Funds through June 2003 | 12 |

Abbreviations

| | |
|------|-------------------------|
| DOD | Department of Defense |
| GWOT | Global War on Terrorism |

This is a work of the U.S. government and is not subject to copyright protection in the United States. It may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.



G A O

Accountability * Integrity * Reliability

United States General Accounting Office
Washington, DC 20548

September 17, 2003

Congressional Committees

Following the terrorist 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 from terrorist attacks are known as Operation Noble Eagle. Overseas operations to combat terrorism are known as Operation Enduring Freedom and have taken place principally in Afghanistan. In March 2003, the United States began Operation Iraqi Freedom to change the government in Iraq. Together, these three operations are known as the Global War on Terrorism (GWOT). To support GWOT in fiscal year 2003, Congress appropriated \$68.7 billion to the Department of Defense (DOD) in the Consolidated Appropriations Resolution, 2003, and Emergency Wartime Supplemental Appropriations Act, 2003.¹ Of the \$68.7 billion appropriated, almost \$16 billion was appropriated in the Wartime Supplemental for a transfer account called the Iraqi Freedom Fund.²

To assist Congress in its oversight role, we reviewed the fiscal year 2003 funding for the GWOT. Specifically, we reviewed the services' obligation rates for GWOT-related activities and what those obligation rates suggest about the services' needs to draw from the Iraqi Freedom Fund during fiscal year 2003. We also reviewed the President's request for fiscal year 2004 funds for Operations Northern Watch, Southern Watch, and Desert Spring,³ which DOD subsequently terminated in March 2003. We provided briefings to the House and Senate Appropriations Committee staff and House and Senate Armed Services Committee staff as well as the House and Senate Budget Committee staff in June and July 2003. This report updates the information we provided during the briefings.

¹ P.L. 108-7 (Feb. 20, 2003) and P.L. 108-11 (Apr. 16, 2003).

² The Iraqi Freedom Fund is a special account providing funds for additional expenses for ongoing military operations in Iraq, and those operations authorized by P.L. 107-40 (Sept. 13, 2001), Authorization for Use of Military Force, and other operations and related activities in support of the global war on terrorism.

³ Operations Northern and Southern Watch enforced the no-fly zones over Iraq. Operation Desert Spring, an Army operation, rotated forces in and out of Kuwait to train with the Kuwaiti military.

To accomplish this review, we obtained the most recently available DOD data on the services' obligation of fiscal year 2003 GWOT funds. We interviewed DOD and service officials responsible for preparing budgets and estimating costs and force levels. We also interviewed resource management officials from most of the major commands involved in Operation Iraqi Freedom. We focused our work on the obligation of funds appropriated for operation and maintenance and military personnel because they represented the large majority of funds obligated in fiscal year 2003 through June 2003. A detailed discussion of our scope and methodology is contained in appendix I.

Results in Brief

While funds obligated for the Global War on Terrorism (GWOT) in fiscal year 2003 are substantial—about \$39 billion through June 2003, our analysis of the services' obligation rates suggests that the funds appropriated by Congress for fiscal year 2003 GWOT operation and maintenance and military personnel, excluding transfers from the Iraqi Freedom Fund, are sufficient because some of the services may not be able to obligate, before the end of fiscal year 2003, the funds they were appropriated. For example, at the end of June 2003, with three-fourths of the fiscal year complete, the percentage of the services' GWOT operation and maintenance appropriations that had been obligated ranged from a low of 65 percent for the Army to a high of about 78 percent for the Marine Corps. While some costs are higher than expected, other costs are lower, and on balance considerable operation and maintenance funds remain unobligated relatively late in the fiscal year for each of the services except the Marine Corps. Costs are higher, for example, because force levels in Iraq have not decreased as quickly as expected; one of the reasons for lower costs, on the other hand, is that not all forces deployed as planned. The percentage of the GWOT military personnel funds that had been obligated by the three-fourths of the fiscal-year mark by the services ranged from 72 percent for the Air Force to 75 percent for the Army and the Marine Corps.

The military services believe that they will be able to obligate their entire fiscal year 2003 GWOT-appropriated funds, including an additional \$2.4 billion in transfers to their operation and maintenance accounts received in August 2003 from the Iraqi Freedom Fund. Based on our analysis of the services' obligation data, we identified considerable unobligated balances in the services' fiscal year 2003 operation and maintenance appropriations that can be used for GWOT. Therefore, we believe the services may have sufficient funds in these accounts for fiscal year 2003, that not all of the transferred funds may be obligated, and that

the services should not require any further transfers from the Iraqi Freedom Fund this fiscal year.

In March 2003, DOD terminated Operations Northern Watch, Southern Watch, and Desert Spring. Therefore, the funds requested for these operations in the President's fiscal year 2004 budget request for DOD may no longer be necessary as requested.

We are making recommendations to ensure that (1) funds provided to the services for GWOT are fully utilized and (2) any funds transferred from the Iraqi Freedom Fund that are not obligated by the end of fiscal year 2003 are identified and returned to the Fund. We also identified a matter for congressional consideration regarding the President's fiscal year 2004 budget request for certain Southwest Asia operations that DOD canceled in March 2003 following the President's budget submission.

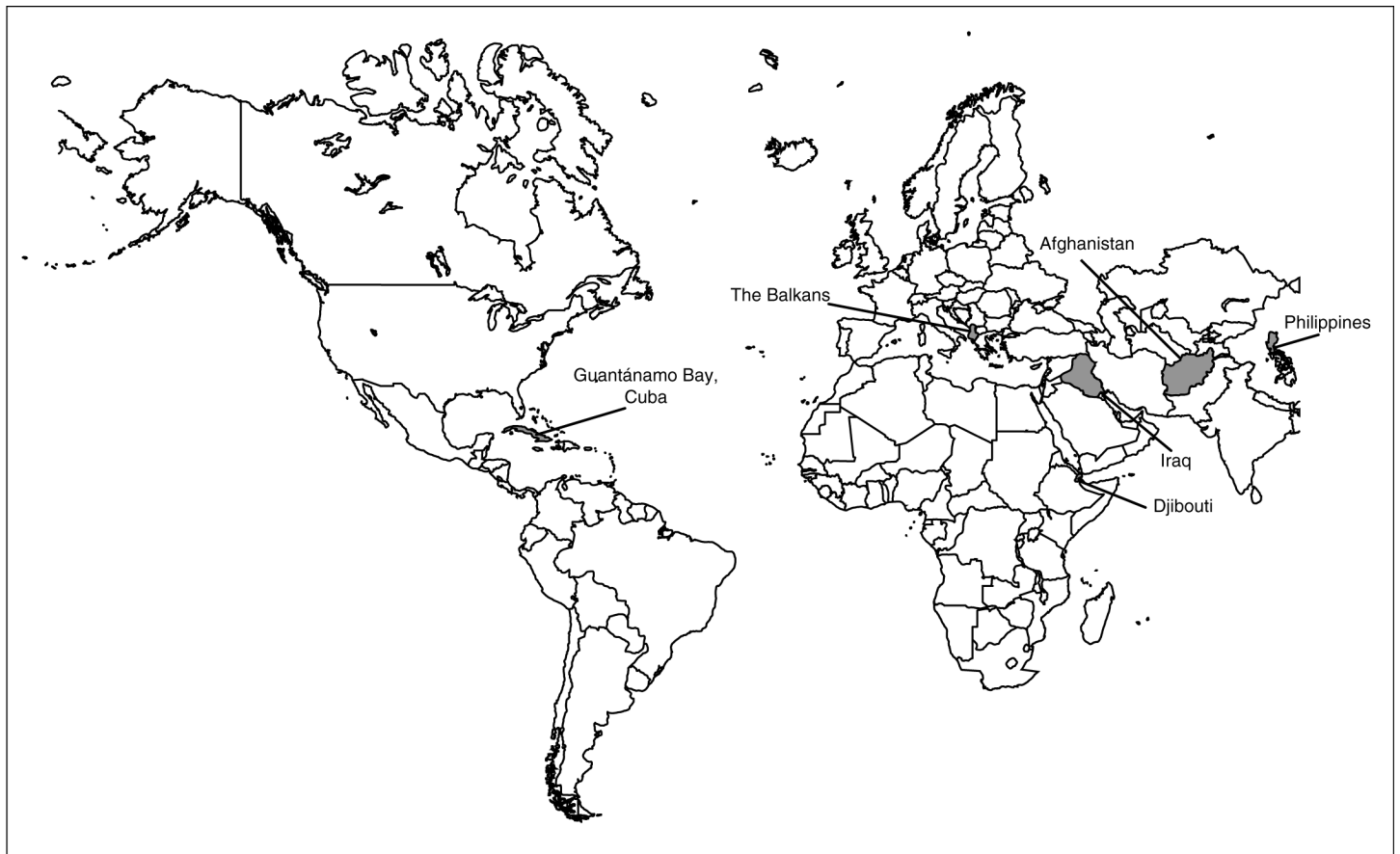
In official oral comments on a draft of this report, DOD agreed with one of our recommendations and had concerns with two others. We revised our recommendations to reflect DOD's concerns, and DOD now concurs with the revised recommendations.

Background

From the end of the Persian Gulf War in February 1991 through June 2003, the DOD reported that it had obligated over \$86.203 billion for incremental costs⁴ it had incurred for its overseas contingency operations. These operations included the enforcement of no-fly zones, humanitarian assistance, and peace enforcement operations, as well as operations to combat terrorism. In fiscal year 2003, these costs were incurred preparing for and undertaking GWOT, including the 2003 war against Iraq. In addition, U.S. military forces are continuing to participate in contingency operations in the Balkans. Figure 1 shows the location of DOD's contingency operations for fiscal year 2003.

⁴ 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 Department of Defense Financial Management Regulation 7000.14R, Volume 12, Chapter 23, Contingency Operations (Feb. 2001) provide additional information on incremental costs. We further note that DOD's financial systems only capture total obligations and the services use various management information systems to identify incremental obligations and to estimate costs. Although we use the term costs throughout this report as a convenience, we are actually referring to DOD's obligation of funds.

Figure 1: Location of DOD's Fiscal Year 2003 Contingency Operations



Source: GAO.

Most of the costs associated with GWOT fall into two accounts—operation and maintenance and military personnel. Operation and maintenance account funds obligated in support of GWOT are used for a variety of purposes, including transportation of personnel, goods, and equipment; unit operating support costs; and intelligence, communications, and logistics support. Military personnel funds obligated in support of GWOT cover the pay and allowances of mobilized reservists as well as special payments or allowances for all qualifying military personnel both active and reserve, such as imminent danger pay and family separation allowance.

Unobligated Balances Late in the Fiscal Year Raise Doubts about Services' Ability to Fully Obligate Their Fiscal Year 2003 GWOT Funds and Justification for Iraqi Freedom Fund Transfers

The services were appropriated about \$34 billion to their operation and maintenance accounts and about \$15 billion to their military personnel accounts for fiscal year 2003⁵ to support the war in Iraq and Operations Enduring Freedom and Noble Eagle. It appears that while the funds obligated for these operations—about \$39 billion as of the end of June 2003—are substantial,⁶ the proportion of appropriated funds that have been obligated as of that date is lower than the proportion of the fiscal year elapsed as of that same date except for the Marine Corps. In this regard, through June 2003, which represents three-fourths of the fiscal year, three of the four services had not obligated more than 68 percent of the operation and maintenance funds appropriated for GWOT, while the Marine Corps had obligated 78 percent.

Fiscal Year 2003 Funding for the Global War on Terrorism

To support GWOT in fiscal year 2003, Congress appropriated \$68.7 billion to DOD in the Consolidated Appropriations Resolution, 2003, and Emergency Wartime Supplemental Appropriations Act, 2003. According to the conference report that accompanied the legislation, Congress included \$6.1 billion for Operations Noble Eagle and Enduring Freedom in the Consolidated Appropriations Resolution of February 2003.⁷ In March 2003, the President requested that Congress appropriate \$74.8 billion for GWOT, including the conduct of military operations in Iraq and reconstruction and relief there. Of this amount, \$62.6 billion was identified in the President's budget for DOD's GWOT military operations. In developing the President's request, DOD assumed, among other things, that the war with Iraq would be a short conflict, would involve a two-front war using Turkey as a staging area, and there would be a rapid redeployment and demobilization of Reserve and National Guard troops following the cessation of combat operations. In April 2003, Congress appropriated \$79.2 billion, including \$62.6 billion for DOD to cover all GWOT, including the war with Iraq, in

⁵ This amount excludes almost \$16 billion provided in the Iraqi Freedom Fund, which is available until the end of fiscal year 2004.

⁶ Of this amount, we estimate that almost \$28 billion was for the war with Iraq based on the Office of the Secretary of Defense (Comptroller)'s estimate through May 2003 and our analysis of the June 2003 obligations data.

⁷ Conference Report (H.R. Conf. Rep. No. 108-10), Feb. 13, 2003, accompanying H.J. Res. 2, Consolidated Appropriations Resolution, 2003 (P.L. 108-7) Feb. 20, 2003.

the Emergency Wartime Supplemental Appropriations Act of April 2003.⁸ Although the services received their Consolidated Appropriations Resolution, 2003, funds for fiscal year 2003 in February 2003, they did not receive their first allocation of funds from the Emergency Supplemental until May 2003 and their second allocation until July 2003. Before receiving these monies, the services used funds from the Consolidated Appropriations and their base programs, obligating \$25.9 billion for GWOT. DOD's statement of its requirements for the supplemental appropriation included reimbursing the services' accounts for costs incurred and financing the costs associated with military operations against Iraq.

Neither the President's request for funds nor the appropriations act allocated the funds to specific operations. Of the funds appropriated to DOD by the Emergency Wartime Supplemental, \$46.699 billion was appropriated directly to the services' and other defense agencies' appropriations accounts and \$15.679 billion to a transfer fund called the Iraqi Freedom Fund. Tables 1 and 2 show the operation and maintenance and the military personnel appropriations provided to the services for GWOT.

Table 1: Operation and Maintenance Funds Provided to the Services for the Global War on Terrorism

| Dollars in millions | | | | | |
|---|-----------------|----------------|------------------|---------------------|---------------------|
| Operation and maintenance | Army | Navy | Air Force | Marine Corps | All services |
| Consolidated Appropriations Resolution | \$1.340 | \$0.436 | \$1.767 | \$0.202 | \$3.745 |
| Emergency Wartime Supplemental Appropriations | \$16.078 | \$5.107 | \$7.120 | \$1.670 | \$29.975 |
| Total | \$17.418 | \$5.543 | \$8.887 | \$1.872 | \$33.720 |

Source: Department of Defense Fiscal Year 2003 Appropriations Report.

Note: The dollar figures cited above include appropriations received by both the active and the reserve components for each service.

⁸ P.L. 108-11 (Apr. 16, 2003).

Table 2: Military Personnel Funds Provided to the Services for the Global War on Terrorism

Dollars in millions

| Military personnel | Army | Navy | Air Force | Marine Corps | All services |
|---|----------------|----------------|------------------|---------------------|---------------------|
| Consolidated Appropriations Resolution | \$0.771 | \$0.214 | \$0.563 | \$0.069 | \$1.617 |
| Emergency Wartime Supplemental Appropriations | \$7.803 | \$1.600 | \$2.800 | \$1.200 | \$13.403 |
| Total | \$8.574 | \$1.814 | \$ 3.363 | \$1.269 | \$15.020 |

Source: Department of Defense Fiscal Year 2003 Appropriations Report.

Note: The dollar figures cited above include appropriations received by both the active and the reserve components for each service.

To assess the extent to which funds appropriated for GWOT have been obligated, we compared the latest available obligation reports for GWOT with the funds appropriated to each of the services' operation and maintenance and military personnel accounts. We then compared the proportion of the funds obligated to the proportion of the fiscal year that had elapsed to ascertain if funds were obligated at a level commensurate with that point in the fiscal year. We recognize that funds are not obligated equally each month throughout the fiscal year but believe that the further into the fiscal year the closer to 100 percent obligations should be relative to appropriations if all appropriated funds are likely to be obligated. The results of this analysis are discussed in the following sections of this report. We discussed our analysis with DOD representatives at the Office of the Secretary of Defense (Comptroller) and each of the services' budget offices, who disagreed with our methodology. These representatives believed that the analysis should take into account the fact that the supplemental appropriation was not available until mid-April 2003 and that funds were not provided to the services until the beginning of May 2003.

We recognize that the supplemental funding was not provided to the services until May 2003. At the same time, DOD had to conduct Operations Noble Eagle and Enduring Freedom from the first day of fiscal year 2003 and subsequently prepare for war in Iraq, deploy over 100,000 military personnel to the Persian Gulf, and conduct major combat operations, all before receiving supplemental funding. As discussed earlier, to fund these operations in advance of receiving supplemental funding, the services used funds from the Consolidated Appropriations and their base programs. In doing so, DOD reported that it had obligated \$25.9 billion for GWOT in fiscal year 2003 through April 2003. Therefore, we believe that assessing how much of the services' direct GWOT appropriations have been obligated relatively late in the fiscal year provides a reasonable measure of how quickly the services are obligating their GWOT

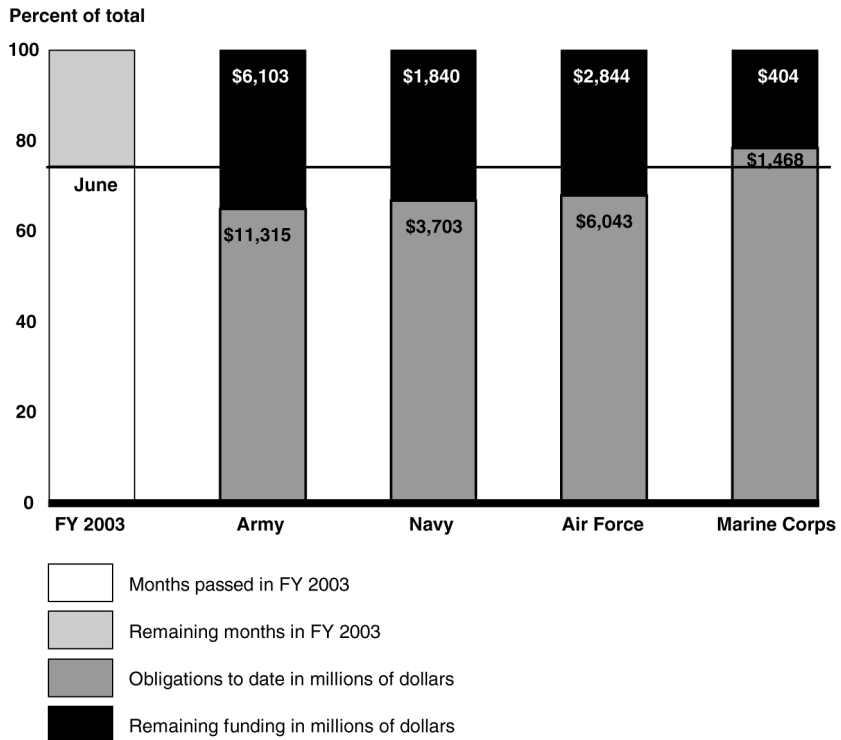
appropriations and the likelihood that they will obligate all the funds appropriated to them. Our analysis suggests that the services have no need for further transfers from the Iraqi Freedom Fund in fiscal year 2003, that all the funds transferred to their operation and maintenance accounts may not be obligated, and that any transferred funds unobligated at the end of the fiscal year should be transferred back to the Iraqi Freedom Fund.

Proportion of Operation and Maintenance Funds Obligated Is Lower Than Proportion of Fiscal Year Elapsed Except for the Marines Corps

Our analysis of the percentage of fiscal year 2003 GWOT operation and maintenance funds obligated by the services compared with the proportion of the fiscal year elapsed (i.e., October 1, 2002, through June 2003, the latest month for which obligation data are available for all the services) shows that the proportion of available appropriations that have been obligated as of a particular date is lower than the proportion of the fiscal year elapsed as of that same date for three of the four military services, notwithstanding that funds obligated to date include those required to cover the preparation of military forces for the war with Iraq and the expense of transporting them and their equipment from the United States and elsewhere to the Persian Gulf. Therefore, we believe the actual operation and maintenance obligations made in fiscal year 2003 could be less than the funds available for obligation in fiscal year 2003. By the end of June 2003, only one of the services, the Marine Corps, had obligated more than 75 percent of the funds appropriated for operation and maintenance, while the other three services had obligated between 65 and 68 percent, although three-fourths of the fiscal year had already elapsed, raising doubts about whether all the services will be able to obligate their entire fiscal year 2003 GWOT operation and maintenance funds in the remaining 3 months of fiscal year 2003. For example, the Army, by the end of June 2003, had obligated 65 percent of its directly appropriated funds for GWOT. Figure 2 displays the obligations through June 2003 for each of the military services.

As can be seen in figure 2, the percentage of directly appropriated operation and maintenance funds that were obligated as of June 30, 2003, ranged from a low of 65 percent for the Army to a high of 78 percent for the Marine Corps.

Figure 2: Obligations of GWOT Operation and Maintenance Funds through June 2003



Source: GAO's analysis of DOD data.

Note: Total obligations include obligations from both the active and the reserve components.

Based on our analysis, we believe that in fiscal year 2003 the services, with the possible exception of the Marine Corps, may not obligate all operation and maintenance funds appropriated to them for GWOT. The services, however, believe that they will obligate all or almost all of these funds. This may in fact be the case, but except for the Marine Corps, if the services do obligate all these funds it will require a faster rate of obligation of funds—greater than the rate at which they have been obligating funds in recent months. We recognize that estimating the costs of ongoing military operations is difficult because operational requirements can differ substantially from what was assumed in developing budget estimates. This has been the case in Iraq, where actual operations have differed from some of the assumptions. For example, a second front using Turkey as a staging area never materialized, there has not been a rapid redeployment and demobilization of Reserve and National Guard troops, one major Army

division expected to deploy did not, and transportation costs were lower than predicted. Some of these differences, such as the lack of a rapid redeployment and demobilization, are resulting in higher than expected costs, while other differences, for example, the decision to not deploy one of the Army's divisions, are resulting in lower than expected costs. However, in light of the rate of obligations made through June and the information presented below, we continue to believe that actual obligations of GWOT operation and maintenance funds for fiscal year 2003 may be less than the total GWOT operation and maintenance appropriations available for obligation in fiscal year 2003.

- According to the Army's obligation plan, the Army expects to obligate \$6 billion during the last 3 months of fiscal year 2003. Through June 2003, the Army had obligated \$11.315 billion. Combining the funds obligated through June and the Army's estimate for the balance of fiscal year 2003 indicates that the Army will obligate a total of \$17.315 billion—\$98 million less than the \$17.413 billion it received in direct operation and maintenance appropriations for GWOT. It should be noted, however, that the Army's actual June obligations of \$2.38 billion are higher than the \$2.2 billion it planned to obligate in June. Whether the Army will obligate all its fiscal year 2003 GWOT operation and maintenance funds depends on whether its obligations for the last 3 months of the fiscal year continue at or near the June 2003 rate or fall to the levels expected in its obligation plan. In discussing the results of our analysis with the Army, Army officials told us that preliminary reports indicate that their July obligations will be about \$3 billion. However, their preliminary June obligation estimate was higher than their actual June obligations, which underscores the difficulty in projecting costs and the need to closely monitor the obligation of GWOT funds.
- The Marine Corps expects to obligate approximately \$591 million for force reconstitution (the repair of damaged equipment and the replacement of munitions, spare parts or equipment lost in war) during the last 3 months of the fiscal year. However, in discussing our analysis with the Marine Corps, Marine Corps officials involved with budgeting for ongoing military operations told us that constraints in depot and contractor capacity could lead the Marine Corps to obligate fewer funds in fiscal year 2003 than planned for depot maintenance, which accounts for \$50 million to \$70 million of its \$591 million reconstitution estimate.
- Through June 2003, which is the first 9 months of fiscal year 2003, the Air Force had obligated \$6.0 billion, or 68 percent, of its direct GWOT operation and maintenance appropriation. Most of the Air Force's aircraft have redeployed from Operation Iraqi Freedom, and the Air Force's role in that operation has been reduced. According to Air Force officials, in March 2003, the Air Force had 1,000 aircraft deployed in support of the

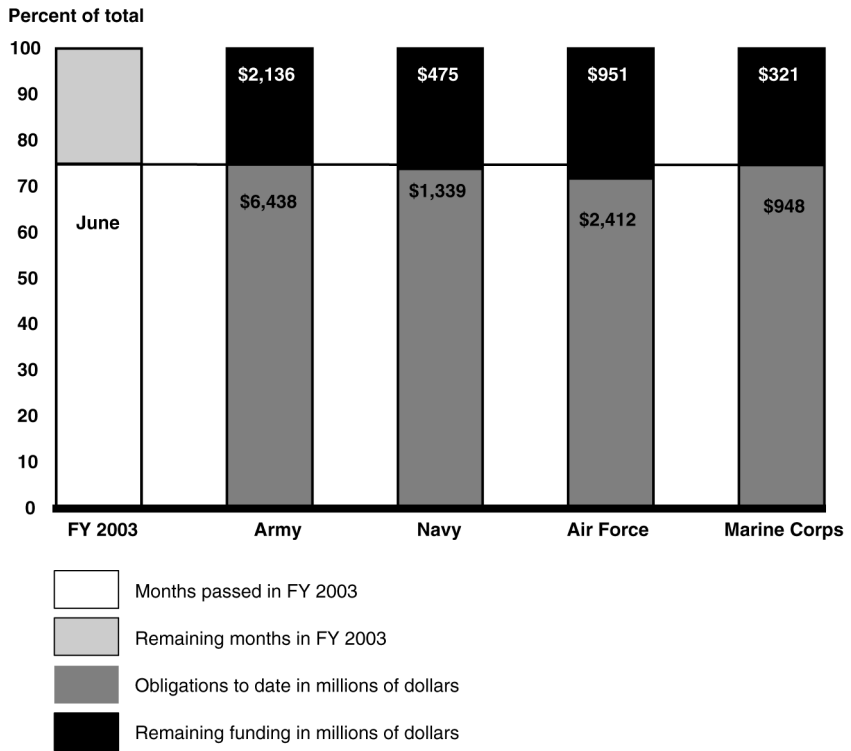
war in Iraq and by late June the number had been reduced to 276. The Air Force's June 2003 obligation of its GWOT operation and maintenance appropriation was \$76 million less than its May 2003 obligation of that appropriation.

- The Navy had obligated \$3.7 billion, or 67 percent, of its direct GWOT appropriation through June 2003. According to Navy officials, all Navy ships that deployed to support Operation Iraqi Freedom have been redeployed, and Navy activity is back to pre-Operation Iraqi Freedom levels. Furthermore, Navy officials with the Pacific Fleet (the Navy's major force provider for Operation Iraqi Freedom) told us that their GWOT obligations were lower than they had estimated, due in part to lower fuel and airlift costs. In discussing our analysis with Navy headquarters officials, they said that while a shorter duration of combat operations resulted in certain costs not accruing or accruing at the estimated levels, other operational factors and costs occurred that were substituted and more than offset estimated fuel and airlift savings. Based on obligations through June 2003, we believe the Navy may not be able to obligate its entire fiscal year 2003 GWOT operation and maintenance appropriation by the end of fiscal year 2003.

Military Personnel Funds Are Being Obligated at a Faster Rate Than Operation and Maintenance Funds

The services have been obligating their funds for military personnel at a faster rate than that for their operation and maintenance funds. As figure 3 shows, with three-fourths of the fiscal year gone, the Army and the Marine Corps had each obligated about three-fourths of their GWOT appropriations for military personnel costs while the Navy and Air Force had each obligated slightly less than three-fourths of their respective GWOT appropriation.

Figure 3: Obligations of GWOT Military Personnel Funds through June 2003



Source: GAO's analysis of DOD data.

Note: Total obligations include obligations from both the active and the reserve components.

According to DOD's July 2, 2003, report on fiscal year 2003 appropriations, the services will obligate their entire fiscal year 2003 GWOT military personnel appropriations. Service officials told us that they believe they will use their entire GWOT military personnel appropriation because the planned demobilization of reserve component personnel has not occurred. In addition, the Army has not been able to redeploy its troops from Iraq as originally planned, which increased the Army's costs for the special pays and allowances, such as imminent danger pay and family separation allowance, which some deployed military personnel are entitled to receive.

DOD is Transferring Additional Funds to the Military Services

In addition to the direct appropriations included in the Emergency Wartime Supplemental Appropriations Act, Congress also established the Iraqi Freedom Fund, which provides the services with additional funds to cover their GWOT costs. Congress appropriated almost \$15.7 billion⁹ to this Fund and made it available to DOD through September 30, 2004. DOD must notify Congress at least 5 days in advance of such transfers, but congressional approval to make the transfers is not required. Once DOD transfers funds to the services' operation and maintenance or military personnel accounts during fiscal year 2003, the funds must be obligated by September 30, 2003, or they should be transferred back to the Iraqi Freedom Fund.¹⁰

On August 11, 2003, DOD notified the Congressional Defense Committees of its intention to make an initial transfer of \$4.8 billion from the Iraqi Freedom Fund to various service and DOD agency accounts. Of the \$4.8 billion, about half (\$2.4 billion) would be transferred to the services' operation and maintenance accounts; the balance would be transferred to defensewide operation and maintenance and to a variety of procurement and research, development, test, and evaluation accounts. The August 11, 2003, notification did not include any transfers to the services' military personnel accounts. Of the amount to be transferred to the services' operation and maintenance accounts,

- \$1,097.3 million would be transferred to the Army,
- \$683.7 million would be transferred to the Navy,
- \$285.9 million would be transferred to the Marine Corps, and
- \$377.5 million would be transferred to the Air Force.

These transfers will increase the amount of funds in the services' fiscal year 2003 operation and maintenance accounts available for GWOT.

⁹ Of the \$15.7 billion, as much as \$5.2 billion was earmarked for particular programs or activities such as the Coast Guard, fighting oil well fires, and repairing Iraq's oil fields, as well as payments to reimburse cooperating nations. The remaining \$10.4 billion is available to meet the requirements of the services and defensewide programs.

¹⁰ Although Iraqi Freedom Fund budget authority remains available for transfer until September 30, 2004, funds transferred under this Fund shall be merged with and shall be available for the same purposes and for the same time period, as the appropriation to which transferred, but can be transferred back to the Fund if unobligated by the end of the fiscal year.

The Termination of Operations Northern Watch, Southern Watch, and Desert Spring Obviates the Need for Requested Fiscal Year 2004 Funds for These Operations

Since the 1991 war with Iraq, the United States has been conducting operations in Southwest Asia to monitor Iraq's compliance with various United Nations resolutions. Operations Northern and Southern Watch enforced the no-fly zones over Iraq. Operation Desert Spring, an Army operation, rotated forces in and out of Kuwait to train with the Kuwaiti military. From the inception of operations through June 2003,¹¹ costs for these operations have totaled \$11.4 billion. Since fiscal year 2002, funds for these operations have been included in the services' base programs.

In March 2003, DOD terminated Operations Northern and Southern Watch and Operation Desert Spring. The President's fiscal year 2004 budget request, which was submitted in February 2003, before the termination of these operations, included approximately \$1.4 billion for these operations. We briefed the Senate and House Committees on Appropriations on the termination of these operations in early June 2003 and suggested that since the operations have ended there was no need to provide funds for them in fiscal year 2004, although there could be further costs associated with shutting them down in fiscal year 2003 between the time they were terminated in March 2003 and September 2003.

The Army agreed that it would not require any funding in fiscal year 2004 for Operation Desert Spring, and the Air Force agreed that it would not require funding for Northern Watch, but it disagreed with congressional action to eliminate funding for Operation Southern Watch. The Air Force asked that the funds for Operation Southern Watch be restored because it believed it needed these funds to maintain the bases that were previously used for Operation Southern Watch and that now support the ongoing operations.

Conclusions

Our analysis of the obligation of funds to support GWOT in fiscal year 2003 suggests that the funds appropriated to the services for that purpose, particularly for operation and maintenance, could be sufficient to cover their fiscal year 2003 costs. On August 11, 2003, DOD notified Congress of its intent to initially transfer \$2.4 billion from the Iraqi Freedom Fund to the services' operation and maintenance accounts. Collectively, with the funds DOD has transferred from the Iraqi Freedom Fund to the military

¹¹ While the programs were terminated in March 2003, after the President's fiscal year 2004 budget request submission, some costs continue to be obligated as the services complete the process of shutting down the operations.

services and the large amount of unobligated funds remaining in the services' fiscal year 2003 GWOT operation and maintenance appropriations except for the Marine Corps as of the end of June 2003, obligating these funds between July and September 30, 2003, could be challenging.

In March 2003, DOD terminated Operations Northern Watch, Southern Watch, and Desert Spring. Therefore, the funds requested for these Operations in the President's fiscal year 2004 budget request for DOD may no longer be necessary as requested.

Recommendations for Executive Action

To ensure that funds already appropriated, including funds transferred from the Iraqi Freedom Fund, to the military services for GWOT are fully utilized and that additional funds are not transferred to the military services' operation and maintenance and military personnel accounts from the Iraqi Freedom Fund until they are needed, we recommend that the Secretary of Defense (1) monitor the obligation of funds in the services' operation and maintenance accounts, including the GWOT funds, (2) ensure that all funds transferred to the services' operation and maintenance accounts that are not likely to be obligated by the end of fiscal year 2003 are transferred back to the Fund as allowed by the Wartime Supplemental Appropriation, and (3) closely review the executability of further funding transfers from the Iraqi Freedom Fund to ensure the funds will be obligated as planned.

Matter for Congressional Consideration

Because Operations Northern Watch, Southern Watch, and Desert Spring were canceled in March 2003, after the President's fiscal year 2004 budget submission, Congress may wish to delete the funds requested for this purpose from the fiscal year 2004 DOD appropriations.

Agency Comments and Our Evaluation

In official oral comments on a draft of this report, DOD agreed with our recommendation to ensure that all funds transferred to the services' operation and maintenance accounts that are not likely to be obligated by the end of fiscal year 2003 are transferred back to the Iraqi Freedom Fund. DOD had concerns with our other two recommendations dealing with (1) monitoring the obligation of GWOT funds and (2) prohibiting the transfer of funds from the Iraqi Freedom Fund until the services provide obligation reports showing that a large percentage of their current GWOT appropriations, such as 90 percent, have been obligated and suggested some revisions. Based on DOD's comments we have revised our

recommendations as discussed below. DOD agrees with our revised recommendations.

With respect to our recommendation that the Secretary of Defense monitor the obligation of GWOT funds in the services' operation and maintenance accounts, including those transferred from the Iraqi Freedom Fund, DOD noted that when the supplemental funds are released to the components those funds become part of the appropriation and are not separately identified as GWOT funds. DOD further noted that it could not separately monitor GWOT funds because they are not identified separately in the accounting systems. As a result, we revised our recommendation to state that the Secretary of Defense monitor the obligation of funds in the services' operation and maintenance accounts, including the GWOT funds.

DOD did not agree with our recommendation that the Secretary of Defense prohibit further transfers until the services provide obligation reports showing that a large percentage of their current GWOT appropriations, such as 90 percent, have been obligated. DOD noted that our recommendation ignores the funding pipeline issues; specifically that it takes time for the funds to be released, received by the services, and obligated. DOD said that to arbitrarily suggest that 90 percent of an account must be obligated before additional funds could be transferred into the account would create an unnecessary burden on the services, lead to "stop-go" funding decisions, and have a negative impact on normal operating procedures. We did not cite a specific figure in our draft recommendation; rather we suggested that a large percentage of the services' current GWOT appropriations, such as 90 percent, be obligated before making further transfers. However, in light of DOD's concerns we revised our recommendation to state that the Secretary of Defense closely review the executability of further funding transfers from the Iraqi Freedom Fund to ensure the funds will be obligated as planned.

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. 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 have any questions regarding this report, please call me on (757) 552-8100. Principal contributors to this report were Steve Sternlieb, Carole Coffey, George Duncan, Matt Ullengren, and James Reynolds.



Neal P. Curtin
Director, Defense Capabilities
and Management

List of Congressional Committees

The Honorable Ted Stevens
Chairman
The Honorable Daniel K. 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 Jerry Lewis
Chairman
The Honorable John 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

Appendix I: Scope and Methodology

To examine the adequacy of funding for the Global War on Terrorism (GWOT), we reviewed (1) the President's fiscal year 2003 budget request for supplemental appropriations, (2) applicable laws and accompanying reports appropriating funds for GWOT, and (3) DOD reports on the obligation of funds. We also obtained budget estimates from the services and their key elements involved in GWOT operations. We also met with service officials to discuss world events that may have had an impact on their budget estimates and their obligation patterns. We compared the latest available obligation reports against total available appropriated funds. We then compared the proportion of appropriated funds obligated with the proportion of the fiscal year that had elapsed to ascertain how rapidly funds were being obligated. We recognized that funds are not obligated equally each month throughout the fiscal year but believe that the further into the fiscal year the closer to 100 percent obligations should be relative to appropriations if all appropriated funds are likely to be obligated. We focused our work on the obligation of funds appropriated for operation and maintenance and military personnel because they represented the large majority of funds obligated in fiscal year 2003 through June 2003. During that period \$866 million of the \$38.9 billion in reported obligations was obligated for what the Department of Defense categorized as investment.

To determine if there is a continued need for fiscal year 2004 funds for Operations Southern Watch, Northern Watch, and Desert Spring, we met with service officials and reviewed documents to determine the status of the three operations. We reviewed the President's fiscal year 2004 budget request for the Department of Defense to determine the total requested for the three operations.

We visited the following locations during our review:

- Office of the Secretary of Defense (Comptroller), Washington, D.C.
- Office of the Secretary of Defense (Reserve Affairs), Washington, D.C.
- Department of the Army, Headquarters, Washington, D.C.
- U.S. Army Reserve Command, Fort McPherson, Ga.
- U.S. Army Forces Command, Fort McPherson, Ga.
- U.S. Army National Guard, Arlington, Va.
- U.S. Army Europe, Heidelberg, Germany.
- U.S. Army Pacific Command, Fort Shafter, Hawaii
- Department of the Air Force, Headquarters, Washington, D.C.
- U.S. Air National Guard, Arlington, Va.
- U. S. Air Force Europe, Ramstein Air Base, Germany.
- Pacific Air Force, Hickham Air Base, Hawaii

- Department of the Navy, Headquarters, Washington, D.C.
- United States Marine Corps, Headquarters, Washington, D.C.
- Naval Reserve Forces Command, New Orleans, La.
- United States Marine Corps Reserve Forces, New Orleans, La.
- Marine Forces, Pacific, Camp Smith, Hawaii
- Pacific Fleet, Pearl Harbor, Hawaii

We also obtained information from the Army Material Command, Alexandria, Virginia.

We performed our work from February through September 2003 in accordance with generally accepted government auditing standards.

GAO's Mission

The General Accounting Office, the audit, evaluation and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through the Internet. GAO's Web site (www.gao.gov) contains abstracts and full-text files of current reports and testimony and an expanding archive of older products. The Web site features a search engine to help you locate documents using key words and phrases. You can print these documents in their entirety, including charts and other graphics.

Each day, GAO issues a list of newly released reports, testimony, and correspondence. GAO posts this list, known as "Today's Reports," on its Web site daily. The list contains links to the full-text document files. To have GAO e-mail this list to you every afternoon, go to www.gao.gov and select "Subscribe to e-mail alerts" under the "Order GAO Products" heading.

Order by Mail or Phone

The first copy of each printed report is free. Additional copies are \$2 each. A check or money order should be made out to the Superintendent of Documents. GAO also accepts VISA and Mastercard. Orders for 100 or more copies mailed to a single address are discounted 25 percent. Orders should be sent to:

U.S. General Accounting Office
441 G Street NW, Room LM
Washington, D.C. 20548

To order by Phone: Voice: (202) 512-6000
 TDD: (202) 512-2537
 Fax: (202) 512-6061

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: www.gao.gov/fraudnet/fraudnet.htm

E-mail: fraudnet@gao.gov

Automated answering system: (800) 424-5454 or (202) 512-7470

Public Affairs

Jeff Nelligan, Managing Director, NelliganJ@gao.gov (202) 512-4800
U.S. General Accounting Office, 441 G Street NW, Room 7149
Washington, D.C. 20548