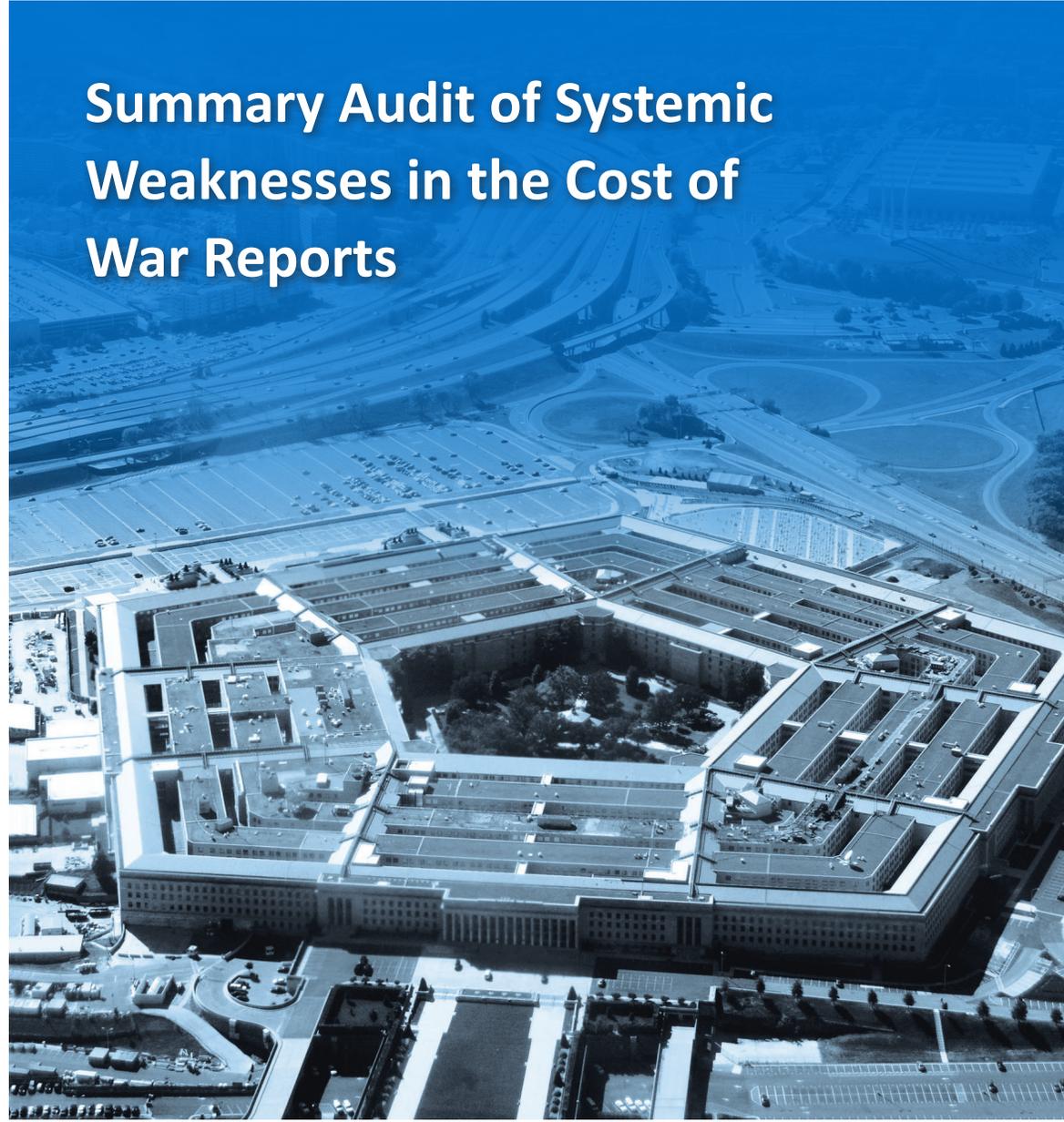




# INSPECTOR GENERAL

*U.S. Department of Defense*

MARCH 22, 2019



## Summary Audit of Systemic Weaknesses in the Cost of War Reports

INTEGRITY ★ INDEPENDENCE ★ EXCELLENCE





# Results in Brief

## *Summary Audit of Systemic Weaknesses in the Cost of War Reports*

March 22, 2019

### Objective

Our objective was to identify and summarize any systemic weaknesses in the DoD's accounting for costs associated with ongoing overseas contingency operations (OCO) identified in six Cost of War (CoW) audit reports issued by the DoD Office of Inspector General (OIG), Army Audit Agency, Naval Audit Service, and Air Force Audit Agency from 2016 through 2018. We considered a weakness systemic when the same or similar issue occurred in two or more DoD Components involved in the CoW reporting process. In addition, we determined the status of recommendations from six CoW audit reports and the actions DoD Components took in response to those recommendations.

### Background

The Chair of the Council of the Inspectors General on Integrity and Efficiency designated the DoD Inspector General as the Lead Inspector General for Operation Inherent Resolve (OIR) on December 17, 2014, and for Operation Freedom's Sentinel (OFS) on April 1, 2015. The Inspector General Act of 1978, as amended, requires the Lead Inspector General to review and determine the accuracy of information provided by Federal agencies regarding OCO funds.

The Secretary of Defense is required to submit the CoW report to the Government Accountability Office within 45 days of the end of each reporting period. The CoW report summarizes

### Background (cont'd)

obligation data by DoD Component, appropriation, and operation. It also includes the details of the obligations and disbursements for the Military Personnel and Operation and Maintenance appropriations.

From 2016 through 2018, the DoD OIG, Army Audit Agency, Naval Audit Service, and Air Force Audit Agency issued six CoW audit reports for OIR and OFS. In the six CoW audit reports, the DoD OIG and Service audit agencies made 26 recommendations to various DoD officials to address weaknesses in the CoW reporting process.

### Finding

Based on our review of six CoW audit reports issued from 2016 through 2018, we determined that Deputy Comptroller (Program/Budget) personnel issued unreliable and outdated CoW reports from FYs 2015 and 2016 to Congress, DoD decision makers, the Government Accountability Office, and the Office of Management and Budget. Specifically, the DoD OIG and Service audit agencies identified the following systemic problems with inaccurate and untimely cost reporting for OIR and OFS.

- Army, Navy, and Air Force personnel underreported and overreported costs for OIR and OFS in the CoW reports. For example, Army personnel incorrectly allocated OFS costs to OIR. As a result, Army personnel underreported obligations for OIR and overreported obligations for OFS.
- Navy and Marine Corps personnel could not provide transaction-level detail to support their OFS obligations and disbursements.
- Deputy Comptroller (Program/Budget) and Army personnel did not submit CoW data by the required milestones.



# Results in Brief

## *Summary Audit of Systemic Weaknesses in the Cost of War Reports*

### **Finding (cont'd)**

According to the reports we reviewed, these problems occurred because of the following systemic internal control weaknesses in the CoW reporting process.

- Army, Navy, Air Force, and Marine Corps personnel did not develop or update standard operating procedures (SOPs) for documenting the receipt, review, and reporting of OIR and OFS costs.
- Army, Navy, Air Force, Marine Corps, and Defense Finance and Accounting Service personnel did not update management tools and systems that capture OIR and OFS costs.
- Deputy Comptroller (Program/Budget) and Army personnel prioritized other tasks, such as budget closeout activities, ahead of the CoW report.

In addition, the DoD OIG and Service audit agencies made 26 recommendations to DoD Components to address weaknesses in the DoD's accounting for war-related OCO costs. The DoD OIG and Service audit agencies closed 19 of the 26 recommendations. The remaining seven recommendations are resolved and will remain open until DoD Components take corrective actions to implement the recommendations, and the DoD OIG and the Naval Audit Service verify that the corrective actions were completed.

Of the 19 closed recommendations, 14 recommendations were significant to the systemic internal control weaknesses identified in this CoW summary audit report. The actions taken to close the 14 recommendations included the development of SOPs to accurately report OIR and OFS costs, updating the management tools to identify war-related OCO costs, and coordination between the Office of the Deputy Comptroller (Program/Budget) and Congress to adjust the statutory CoW reporting requirement from monthly to quarterly. These corrective actions should result in more accurate CoW reports.

Of the seven resolved recommendations, four recommendations were significant to the systemic internal control weaknesses identified in this CoW summary audit report. According to DoD officials, the DoD Components did not implement the four recommendations due to the:

- Navy's prioritization of natural disaster relief efforts and congressional budget justification for FY 2018;
- Navy's transition to the Marine Corps accounting system, which Navy personnel started in FY 2016; and
- Marine Corps' misinterpretation of the Deputy Comptroller (Program/Budget)'s CoW reporting requirements.

If DoD Components do not implement the four remaining recommendations and take corrective actions to address the systemic internal control weaknesses in the CoW reporting process, Congress, DoD decision makers, the Government Accountability Office, and the Office of Management and Budget may not be able to make informed budgetary decisions, maintain accountability of war-related OCO funds, or determine precise war-related OCO execution trends.

### **Recommendations**

Based on our review of six CoW audit reports, we identified systemic internal control weaknesses in the CoW reporting process. Therefore, we developed the following higher-level recommendations to address the systemic internal control weaknesses. We recommend that the:

- Deputy Comptroller (Program/Budget), Office of the Under Secretary of Defense (Comptroller) (USD(C))/Chief Financial Officer (CFO), DoD, develop and implement review processes to



# Results in Brief

## Summary Audit of Systemic Weaknesses in the Cost of War Reports

### Recommendations (cont'd)

- verify that DoD Components develop, update, and implement SOPs, management tools, and accounting systems for accurate war-related OCO cost reporting.
- Under Secretary of the Navy, in coordination with the Assistant Secretary of the Navy (Financial Management and Comptroller) and the Deputy Commandant of the Marine Corps for Programs and Resources, develop and implement procedures to capture the required level of detail of war-related OCO costs in the respective accounting system.
  - Deputy Secretary of Defense, in coordination with the Deputy Comptroller (Program/Budget), Office of the USD(C)/CFO, the Defense Finance and Accounting Service Director, and each Service's Assistant Secretary for Financial Management and Comptroller, enforce the requirement for DoD Components involved in the CoW reporting process to submit their CoW data within the established timelines and issue the CoW report within 45 days of the end of the reporting period, or coordinate with Congress to request an adjustment to the legal requirements for the reporting timetable.
  - Auditor General of the Army, Auditor General of the Navy, and Auditor General of the Air Force include followup audits that verify the accuracy of the CoW data in their FY 2020 audit plans.

### Management Comments and Our Response

The Operations Director, responding for the Deputy Comptroller (Program/Budget), Office of the USD(C)/CFO, agreed with the recommendation to develop and implement a review process to verify that

the Services develop, review, update, and implement their CoW SOPs to accurately and consistently report war-related OCO costs. The Operations Director stated that the Office of the USD(C)/CFO will include language in the yearly CoW reporting guidance and instructions to require DoD Components to review, update, and implement their CoW SOPs. However, the Operations Director did not specify how the Office of the USD(C)/CFO would confirm that DoD Components implemented the DoD Financial Management Regulation.<sup>1</sup> According to the DoD Instruction, the USD(C)/CFO is responsible for monitoring DoD Components' compliance with DoD financial reporting requirements.<sup>2</sup> Therefore, this recommendation is unresolved. We request that the Deputy Comptroller (Program/Budget) provide additional comments that describe the specific actions that she will take to verify that DoD Components have developed, reviewed, updated, and implemented their CoW SOPs to ensure accurate and consistent reporting of war-related OCO costs.

In addition, the Operations Director, responding for the Deputy Comptroller (Program/Budget), Office of the USD(C)/CFO, disagreed with the recommendation to develop and implement a review process to verify that DoD Components update their management tools and accounting systems to properly identify and record war-related OCO costs. The Operations Director stated that DoD Components are required to update their management tools and accounting systems to properly identify and record war-related OCO costs. However, based on our review of six CoW audit reports, we determined that Army, Navy, Air Force,

<sup>1</sup> DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 12, chapter 23, "Contingency Operations," section 230904, "Guidance/Instructions."

<sup>2</sup> DoD Instruction 7000.14, "Department of Defense Financial Management Policy and Procedures," March 3, 2006, Incorporating Change 1, September 17, 2008.



# Results in Brief

## *Summary Audit of Systemic Weaknesses in the Cost of War Reports*

### **Comments (cont'd)**

Marine Corps, and Defense Finance and Accounting Service personnel did not update their management tools and systems that captured war-related OCO costs from FYs 2015 and 2016. According to the DoD Instruction, the USD(C)/CFO is responsible for monitoring DoD Components' compliance with DoD financial reporting requirements. Therefore, this recommendation is unresolved. We request that the Deputy Comptroller (Program/Budget) provide additional comments that describe the specific actions that she will take to verify that DoD Components updated their management tools and accounting systems to properly identify and record war-related OCO costs.

The Under Secretary of the Navy agreed with the recommendation to develop and implement procedures to capture the required level of detail of war-related OCO costs in the respective accounting systems. The Under Secretary of the Navy stated that the Navy established a methodology to identify an appropriate portion of OCO obligations as incremental costs for the CoW report, and that the Marine Corps implemented a policy to manage the codes that identify OCO obligations and disbursements in the Marine Corps accounting system. However, the Under Secretary of the Navy did not specify how the Navy would provide transaction-level details to allow source data to be traced to the amounts reported in the CoW report, or whether the Marine Corps policy included procedures to capture transaction-level details of war-related OCO costs. Therefore, this recommendation is unresolved. We request that the Under Secretary of

the Navy provide additional comments that describe the specific actions that he will take to enable Navy and Marine Corps personnel to capture the required transaction-level details of war-related OCO costs in the Marine Corps accounting system.

The Auditor General of the Army, Acting Auditor General of the Navy, and Auditor General of the Air Force agreed to include followup audits that verify the accuracy of the CoW data in their FY 2020 audit plans. Therefore, the recommendation is resolved but will remain open. We will close this recommendation once we receive the final audit reports that assess the accuracy of the CoW data from the Auditors General of the Army, Navy, and Air Force.

The USD(C)/CFO, performing the duties of the Deputy Secretary of Defense, agreed with the recommendation to enforce the requirement for DoD Components to submit their CoW data within the established deadlines and issue the CoW report within 45 days of the end of the reporting period. The USD(C)/CFO stated that the Office of the USD(C)/CFO will enforce the requirements of the CoW reporting process. Therefore, the recommendation is resolved but will remain open. We will close this recommendation once we verify that the Office of the USD(C)/CFO issued a quarterly FY 2019 CoW report within 45 days of the end of the reporting period.

Please see the Recommendations Table on the next page.

## Recommendations Table

Management	Recommendations Unresolved	Recommendations Resolved	Recommendations Closed
Deputy Secretary of Defense	None	5	None
Under Secretary of the Navy	2	None	None
Deputy Comptroller (Program/Budget), Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD	1 and 3	None	None
Auditor General, Department of the Army	None	4	None
Auditor General, Department of the Navy	None	4	None
Auditor General, Department of the Air Force	None	4	None

Please provide Management Comments by April 22, 2019.

**Note:** The following categories are used to describe agency management’s comments to individual recommendations.

- **Unresolved** – Management has not agreed to implement the recommendation or has not proposed actions that will address the recommendation.
- **Resolved** – Management agreed to implement the recommendation or has proposed actions that will address the underlying finding that generated the recommendation.
- **Closed** – OIG verified that the agreed upon corrective actions were implemented.





**INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
4800 MARK CENTER DRIVE  
ALEXANDRIA, VIRGINIA 22350-1500**

March 22, 2019

MEMORANDUM FOR UNDER SECRETARY OF THE NAVY  
DEPUTY COMPTROLLER (PROGRAM/BUDGET), OFFICE OF THE  
UNDER SECRETARY OF DEFENSE (COMPTROLLER)/CHIEF  
FINANCIAL OFFICER, DOD  
AUDITOR GENERAL, DEPARTMENT OF THE ARMY  
AUDITOR GENERAL, DEPARTMENT OF THE NAVY  
AUDITOR GENERAL, DEPARTMENT OF THE AIR FORCE

SUBJECT: Summary Audit of Systemic Weaknesses in the Cost of War Reports  
(Report No. DODIG-2019-066)

We are providing this report for your review and comment. We conducted this summary audit in accordance with generally accepted government auditing standards except for the standards of planning and evidence because the report summarized previously issued audit reports.

DoD Instruction 7650.03 requires that all recommendations be resolved promptly. We considered management comments on a draft of this report when preparing the final report. Comments from the Under Secretary of the Navy and the Deputy Comptroller (Program/Budget), Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, partially addressed the recommendations. Therefore, we request that the Under Secretary of the Navy and the Deputy Comptroller (Program/Budget), Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, provide additional comments on their respective recommendations by April 22, 2019. Comments from the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, performing the duties of the Deputy Secretary of Defense, Auditor General of the Army, Acting Auditor General of the Navy, and Auditor General of the Air Force addressed their respective recommendations. Therefore, we do not require additional comments.

Please send a PDF file containing your comments to [audrgo@dodig.mil](mailto:audrgo@dodig.mil) by April 22, 2019. Copies of your comments must have the actual signature of the authorizing official for your organization. We cannot accept the /Signed/ symbol in place of the actual signature. If you arrange to send classified comments electronically, you must send them over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the cooperation and assistance received during the audit. Please direct questions to me at (703) 604-8905, (DSN 664-8905).

A handwritten signature in black ink, reading "Troy M. Meyer".

Troy M. Meyer  
Principal Assistant Inspector General  
For Audit

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# Introduction

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## Objective

Our objective was to identify and summarize systemic weaknesses in the DoD's accounting for costs associated with ongoing overseas contingency operations (OCO) identified in Cost of War (CoW) audit reports issued by the DoD Office of Inspector General (OIG), Army Audit Agency, Naval Audit Service, and Air Force Audit Agency from 2016 through 2018. We considered a weakness systemic when the same or similar issue occurred in two or more DoD Components involved in the CoW reporting process. DoD Components include the Office of the Secretary of Defense, the Military Departments, and Defense agencies.<sup>3</sup> In addition, we determined the status of recommendations from six CoW audit reports and the actions DoD Components took in response to those recommendations. See Appendix A for scope and methodology and prior audit coverage related to the objective.

## Background

When the DoD OIG and Service audit agencies conducted their CoW audits, Public Law 109-163 required the Secretary of Defense to submit the CoW report to the Government Accountability Office (GAO) within 45 days of the end of each reporting period.<sup>4</sup> Public Laws 113-235 and 114-113 required the DoD to report incremental costs for Operation Inherent Resolve (OIR), Operation Freedom's Sentinel (OFS), and any named successor operations on a monthly basis in the CoW report.<sup>5</sup> DoD Regulation 7000.14-R defines incremental costs as costs above and beyond baseline training, operations, and personnel costs incurred to support the contingency operation.<sup>6</sup> A contingency operation occurs when Service members are, or may become, involved in military actions, operations, or hostilities against an enemy of the United States.<sup>7</sup> Contingency operations typically include war-related operations and non-war programs, such as humanitarian assistance and reconstruction projects.

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<sup>3</sup> The DoD Components included in our review include the Office of the Deputy Comptroller (Program/Budget), Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD; the Defense Finance and Accounting Service; and the Military Departments. However, for the Department of the Navy, we considered the Navy and the Marine Corps separate entities because they have separate CoW reporting processes.

<sup>4</sup> Public Law 109-163, "National Defense Authorization Act for Fiscal Year 2006," section 1221, "War-Related Reporting Requirements," January 6, 2006. In addition, the Comptroller General of the United States is the chief executive officer of the GAO.

<sup>5</sup> Public Law 113-235, "Consolidated and Further Continuing Appropriations Act, 2015," December 16, 2014, and Public Law 114-113, "Consolidated Appropriations Act, 2016," section 8093, December 18, 2015.

<sup>6</sup> DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 12, chapter 23, "Contingency Operations," section 230406, "Contingency Operations Cost Categories and Definitions."

<sup>7</sup> Section 101, title 10, United States Code, 2006.

On October 15, 2014, U.S. Central Command designated U.S. military operations against the Islamic State of Iraq and the Levant in Iraq and Syria as OIR. On January 1, 2015, the Secretary of Defense announced the beginning of OFS, which aims to support the North Atlantic Treaty Organization's Resolute Support Mission of training, advising, and assisting Afghan security forces, and to continue the counterterrorism mission against the remnants of Al-Qaeda. OIR and OFS do not involve non-war programs.

Section 8L of the Inspector General Act of 1978, as amended, requires the Chair of the Council of the Inspectors General on Integrity and Efficiency to designate the Lead Inspector General for an OCO.<sup>8</sup> The Lead Inspector General is required to review and determine the accuracy of information Federal agencies provide regarding OCO obligations and expenditures; costs of programs and projects; accountability of funds; and award and execution of major contracts, grants, and agreements in support of the OCO. The Chair of the Council of the Inspectors General on Integrity and Efficiency designated the DoD Inspector General as the Lead Inspector General for OIR on December 17, 2014, and for OFS on April 1, 2015.

### ***Cost of War Report***

The CoW report summarizes obligation data by Component, appropriation, and operation. It also details the cost breakdown structure of the obligations and disbursements for the Military Personnel and Operation and Maintenance appropriations. The cost breakdown structure is a hierarchical system for subdividing a program into various activities such as personnel, operations, transportation, procurement, research and development, and military construction, to provide more effective management and control of the program, especially cost control. An obligation is the value of an order placed, contract awarded, or service received that requires payment. A disbursement is an amount paid, by cash or cash equivalent, to satisfy the corresponding obligation.

DoD Regulation 7000.14-R requires that controls, accounting systems, and procedures identify and accurately record costs incurred to support OCOs.<sup>9</sup> It also requires each DoD Component to develop and publish a standard operating procedure (SOP) or other supplemental guidance that covers procedures to identify all sources of data collected for cost reporting, validate the accuracy and fair representation of monthly OCO costs, and address significant variances in obligations.<sup>10</sup>

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<sup>8</sup> Inspector General Act of 1978, as amended, section 8L (d), "Special Provisions Concerning Overseas Contingency Operations."

<sup>9</sup> DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 12, chapter 23, "Contingency Operations," section 230104, "DoD Policy Requirements."

<sup>10</sup> DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 12, chapter 23, "Contingency Operations," section 230904, "Guidance/Instructions."

## ***Cost of War Reporting Process***

The Office of the Deputy Comptroller (Program/Budget), Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, is responsible for supporting all budget-related activities needed for OCOs and developing budgetary guidance. The Deputy Comptroller (Program/Budget) issues yearly instructions outlining the requirements for reporting war-related OCO costs for each fiscal year. For FYs 2015 and 2016, the data requirements were to report monthly OIR and OFS execution amounts into Contingency Operations Reporting and Analysis Service (CORAS).<sup>11</sup> CORAS is a web-based repository that enables DoD Components to view, analyze, and report consolidated data related to disaster and contingency efforts. In addition, all execution data must be reported at the appropriation, budget activity, and budget line item detail using the cost breakdown structure, which is provided in CORAS.<sup>12</sup> The roles and responsibilities of the DoD Components, the Defense Finance and Accounting Service (DFAS), and the Office of the Deputy Comptroller (Program/Budget) are described below.

### ***DoD Components***

DoD Component personnel are responsible for identifying and reporting war-related OCO costs. They are required to submit obligation and disbursement data for appropriations, such as Military Personnel, Operation and Maintenance, and Investment, from their accounting systems into CORAS using a combination of manual and automated system processes. For data that is not automatically transferred, DoD Component personnel manually input the data into CORAS using in-house management tools, such as Excel spreadsheets and accounting system queries that identify and track war-related OCO costs. DoD Component personnel must ensure that reported data is consistent with the Component's respective accounting system and CORAS.

DoD Components are also required to review, validate, and affirm the accuracy of the costs associated with each active war-related OCO in CORAS. When appropriation variances exceed the specified percentage listed in the Deputy Comptroller (Program/Budget)'s instructions, they are required to prepare and submit footnotes explaining the variance. DoD Component personnel should also maintain audit trails that are detailed enough to allow transactions and balances to be traced from their sources to the amounts reported in the CoW report.

<sup>11</sup> Deputy Comptroller (Program/Budget), "FY 2015 Instructions for Overseas Contingency Operations Cost Reporting," November 13, 2014, and "FY 2016 Instructions for Reporting on the Cost of War," October 29, 2015.

<sup>12</sup> Appropriations are congressionally-approved funds designated for a specific use during a specific period of time. Appropriations typically include a number of budget activities (distinguishable lines of work that DoD Components perform) that are broken down into budget line items, which are individual accounts available for disbursement.

In addition, DoD Component personnel are required to develop and publish an SOP to identify Component-specific items for OCO cost reporting. The SOP should cover procedures to identify all sources of data collected for cost reporting, validate the accuracy and fair representation of OCO costs, and identify variances.

*Defense Finance and Accounting Service*

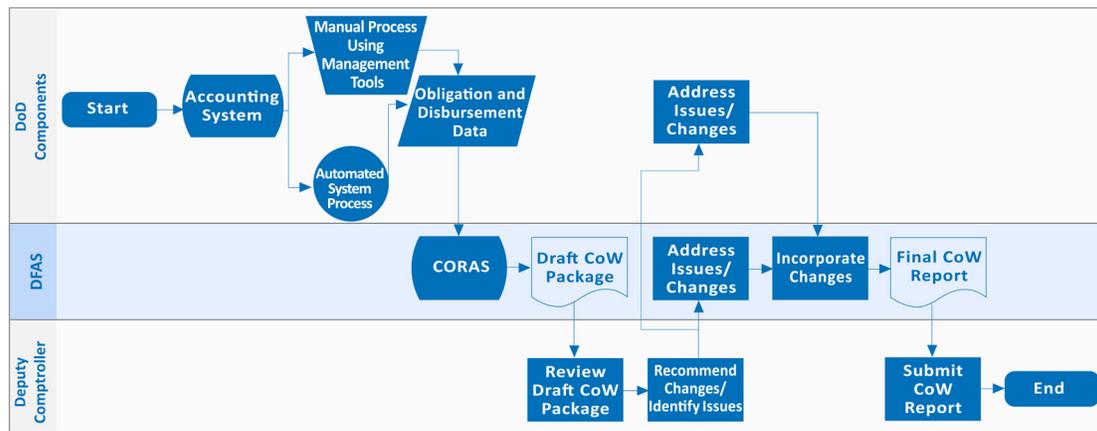
DFAS personnel are responsible for generating the draft and final CoW report using data from CORAS. They provide the CoW reports to the Office of the Deputy Comptroller (Program/Budget), including all war-related OCO obligation and disbursement data submitted to DFAS by the DoD Components. DFAS personnel are also responsible for incorporating changes made during the review of the draft CoW report.

*Office of the Deputy Comptroller (Program/Budget)*

Deputy Comptroller (Program/Budget) personnel are responsible for reviewing the draft CoW report and providing any identified issues or recommended changes to DFAS and the DoD Components. They also submit the final CoW report to Congress, DoD decision makers, the GAO, and the Office of Management and Budget (OMB).

See the Figure for an illustration of the overall CoW reporting process, from the DoD Components' source accounting systems to the Deputy Comptroller (Program/Budget)'s CoW report.

Figure. Cost of War Reporting Process



Source: The DoD OIG.

## ***Cost of War Audit Reports***

From 2016 through 2018, the DoD OIG, Army Audit Agency, Naval Audit Service, and Air Force Audit Agency issued six audit reports related to CoW reporting for OIR and OFS from FYs 2015 and 2016. The following audit reports identify weaknesses related to how DoD Components reported war-related OCO costs.

- Army Audit Agency Report No. A-2018-0043-IEX, “Reporting Expenditures for Operation Freedom’s Sentinel,” April 5, 2018 covering the September 2016 CoW report
- Air Force Audit Agency Report No. F2018-0002-L10000, “Air Force Cost of War Report—Operation Freedom’s Sentinel,” April 4, 2018 covering the September 2016 CoW report
- Army Audit Agency Report No. A-2018-0039-IEX, “Reporting Expenditures for Operation Inherent Resolve,” March 26, 2018 covering the September 2016 CoW report
- Naval Audit Service Report No. N2018-0016, “Marine Corps Financial Data for Operation Freedom’s Sentinel,” February 2, 2018 covering the third quarter FY 2016 CoW reports<sup>13</sup>
- DoD OIG Report No. DODIG-2017-067, “Navy Inaccurately Reported Costs for Operation Freedom’s Sentinel in the Cost of War Reports,” March 16, 2017 covering the first quarter FY 2016 CoW reports
- DoD OIG Report No. DODIG-2016-102, “Additional Controls Needed to Issue Reliable DoD Cost of War Reports That Accurately Reflect the Status of Air Force Operation Inherent Resolve Funds,” June 23, 2016 covering the third quarter FY 2015 CoW reports

In the six audit reports, the DoD OIG and Service audit agencies made 26 recommendations to various DoD officials to address weaknesses in the CoW reporting process. Of the 26 recommendations, 19 recommendations are closed, and 7 recommendations are resolved and will remain open until DoD Components take corrective actions to implement the recommendations and the DoD OIG and Naval Audit Service verify that the proposed corrective actions are completed. See Appendix A for summaries of the reports issued by the DoD OIG and Service audit agencies on the DoD’s accounting for war-related costs associated with ongoing OCOs in the CoW reports. See Appendix B for a list of the 26 recommendations and the status of each recommendation.

<sup>13</sup> This report contained a Notice of Disclosure stating that the Naval Audit Service experienced a potential threat to its audit independence due to the Department of the Navy’s organizational structure in effect from March 13, 2013, through December 4, 2017. Since the audit work for Report No. N2018-0016 was conducted during the period of the structural threat, we performed procedures to determine whether we could include the Naval Audit Service’s results in our audit. Based on the procedures performed, we concluded that we could use the results to support the finding for this CoW summary audit report.

## Review of Internal Controls

DoD Instruction 5010.40 requires DoD Components to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls.<sup>14</sup>

We identified and summarized internal control weaknesses in the DoD Components' CoW reporting process identified in the six audit reports. We will provide a copy of the report to the senior officials responsible for internal controls in the Office of the Secretary of Defense and the Services.

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<sup>14</sup> DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013.

## Finding

### Cost of War Reports for Overseas Contingency Operations Were Unreliable and Outdated

Based on our review of six CoW audit reports issued by the DoD OIG and the Service audit agencies from 2016 through 2018, Deputy Comptroller (Program/Budget) personnel issued unreliable and outdated CoW reports to Congress, DoD decision makers, the GAO, and the OMB. Specifically, the DoD OIG and Service audit agencies identified the following systemic problems with inaccurate and untimely cost reporting for OIR and OFS.

- Army, Navy, and Air Force personnel underreported and overreported costs for OIR and OFS in the CoW reports. For example, Army personnel incorrectly allocated OFS costs to OIR. As a result, Army personnel underreported obligations for OIR and overreported obligations for OFS.
- Navy and Marine Corps personnel could not provide transaction-level detail to support their OFS obligations and disbursements.
- Deputy Comptroller (Program/Budget) and Army personnel did not submit CoW data by the required milestones.

These problems occurred due to the following systemic internal control weaknesses in the CoW reporting process.

- Army, Navy, Air Force, and Marine Corps personnel did not develop or update SOPs for documenting the receipt, review, and reporting of OIR and OFS costs.
- Army, Navy, Air Force, Marine Corps, and DFAS personnel did not update management tools and systems that capture OIR and OFS costs.
- Deputy Comptroller (Program/Budget) and Army personnel prioritized other tasks, such as budget closeout activities, ahead of the CoW report.

The CoW audit reports issued from 2016 through 2018 by the DoD OIG and Service audit agencies contained 26 recommendations to address weaknesses in the DoD's accounting for costs associated with OIR and OFS. DoD Components took action to implement 19 of the 26 recommendations. The remaining seven recommendations are resolved and will remain open until DoD Components take corrective actions to implement the recommendations and the DoD OIG and the Naval Audit Service verify that the corrective actions were completed. See Appendix B for a list of the 26 recommendations and the status of each recommendation.

Of the 19 closed recommendations, 14 recommendations were significant to the systemic internal control weaknesses identified in this CoW summary audit report. The actions taken to close the 14 recommendations included the development of SOPs to accurately report OIR and OFS costs, updating of management tools to identify war-related OCO costs, and coordination between the Office of the Deputy Comptroller (Program/Budget) and Congress to adjust the statutory CoW reporting requirement from monthly to quarterly. These corrective actions should result in more accurate CoW reports.

Of the seven resolved recommendations, four recommendations were significant to the systemic internal control weaknesses identified in this CoW summary audit report. According to DoD personnel, the DoD Components did not implement the four recommendations due to the:

- Navy's prioritization of natural disaster relief efforts and congressional budget justifications for FY 2018;
- Navy's transition to the Marine Corps accounting system, which Navy personnel started in FY 2016; and
- Marine Corps' misinterpretation of the Deputy Comptroller (Program/Budget)'s CoW reporting requirements.

If DoD Components do not implement the four remaining recommendations and take corrective actions to address the systemic internal control weaknesses in the CoW reporting process, Congress, DoD decision makers, the GAO, and the OMB may not be able to make informed budgetary decisions, maintain accountability of war-related OCO funds, and determine precise war-related OCO execution trends.

## **Unreliable and Outdated Cost of War Reports**

Based on our review of six CoW audit reports, we determined that Deputy Comptroller (Program/Budget) personnel issued unreliable and outdated CoW reports to Congress, DoD decision makers, the GAO, and the OMB. The DoD OIG and Service audit agencies identified the following systemic problems related to inaccurate and untimely cost reporting for OIR and OFS.

- Army, Navy, and Air Force personnel underreported and overreported costs for OIR and OFS in the CoW reports.
- Navy and Marine Corps personnel could not provide transaction-level detail to support their OFS obligations and disbursements.
- Deputy Comptroller (Program/Budget) and Army personnel did not submit CoW data by the required milestones.

## ***Underreported and Overreported Costs in the Cost of War Reports***

Based on our review of six CoW audit reports, we determined that Army, Navy, and Air Force personnel underreported and overreported OIR and OFS costs in the CoW reports from FYs 2015 and 2016. According to the Deputy Comptroller (Program/Budget)'s CoW reporting instructions for FYs 2015 and 2016, DoD Components were required to review, validate, and affirm that the accuracy of the data that they submitted was a fair representation of costs associated with each war-related OCO. However, the DoD OIG, Army Audit Agency, and Air Force Audit Agency identified the following examples of underreported and overreported OIR and OFS costs.

- In Report No. A-2018-0039-IEEX, the Army Audit Agency reported that Army personnel underreported an estimated \$25 million in September 2016 obligations for OIR.<sup>15</sup>
- In Report No. A-2018-0043-IEEX, the Army Audit Agency also reported that Army personnel overreported approximately \$25 million in September 2016 obligations for OFS.<sup>16</sup>
- In Report No. DODIG-2017-067, the DoD OIG reported that Navy personnel inaccurately reported \$20.1 million in obligations and \$85.4 million in disbursements for OFS in the first quarter FY 2016 CoW report submissions.
- In Report No. DODIG-2017-067, the DoD OIG also reported that Navy personnel submitted more than incremental OFS costs to DFAS in the first quarter FY 2016 CoW reports.
- In Report No. DODIG-2016-102, the DoD OIG reported that Air Force personnel inaccurately represented OIR costs in the third quarter FY 2015 CoW reports by underreporting \$237.9 million in obligations and \$209.9 million in disbursements.
- In Report No. F2018-0002-L10000, the Air Force Audit Agency reported that Air Force personnel underreported approximately \$10 million in obligations and \$6.1 million in disbursements for OFS in the September 2016 CoW report.

<sup>15</sup> The Army Audit Agency reported that the total amount of cumulative obligations for OIR was \$2.5 billion in FY 2016.

<sup>16</sup> The Army Audit Agency reported that the total amount of cumulative obligations for OFS was \$21.9 billion in FY 2016.

### ***Inadequate Transaction-Level Detail to Support Reported Operation Freedom's Sentinel Costs***

Based on our review of six CoW audit reports, we determined that Navy and Marine Corps personnel could not support OFS obligations and disbursements in CoW reports from FY 2016. DoD Regulation 7000.14-R requires that controls, accounting systems, and procedures provide proper identification and recording of costs incurred in support of OCOs. It also states that DoD Components should maintain audit trails that are detailed enough to allow transactions and balances to be traced from their sources to the amounts reported in the CoW report. However, the DoD OIG and Naval Audit Service identified the following examples of unsupported obligation and disbursement amounts for OFS.

- In Report No. DODIG-2017-067, the DoD OIG reported that Navy personnel could not support \$866.3 million in obligations or the related disbursements for OFS from the first quarter FY 2016 CoW reports.
- In Report No. N2018-0016, the Naval Audit Service reported that Marine Corps personnel could not support \$127.9 million in obligations and \$92.9 million in disbursements under the Operation and Maintenance appropriation for OFS in the third quarter FY 2016 CoW reports.

### ***Late Submission of Cost of War Data***

Based on our review of six CoW audit reports, we determined that Deputy Comptroller (Program/Budget) and Army personnel did not submit CoW data from FYs 2015 and 2016 by the established deadlines. Public Law 109-163 requires the Secretary of Defense to submit the CoW report to the GAO within 45 days of the end of each reporting period. In addition, the Deputy Comptroller (Program/Budget)'s instructions for CoW reporting in FY 2016 required DoD Components to submit their CoW data and the corresponding footnotes and affirmation statements to DFAS within 21 days and 30 days, respectively, following the reporting month. However, the DoD OIG and Army Audit Agency identified the following examples of late CoW data submissions.

- In Report No. DODIG-2016-102, the DoD OIG reported that Deputy Comptroller (Program/Budget) personnel issued the FY 2015 CoW reports an average of 80 days late.
- In Report Nos. A-2018-0039-IEX and A-2018-0043-IEX, the Army Audit Agency reported that Deputy Comptroller (Program/Budget) personnel issued the FY 2016 CoW reports an average of 67 days late.
- In Report Nos. A-2018-0039-IEX and A-2018-0043-IEX, the Army Audit Agency reported that, in FY 2016, Army personnel submitted monthly CoW data an average of 4 days late for 11 of 12 months, and the corresponding footnotes and affirmation statements an average of 6 days late for 8 of 12 months.

## Systemic Internal Control Weaknesses in the Cost of War Reporting Process

Based on our review of six CoW audit reports, we determined that Deputy Comptroller (Program/Budget) personnel issued unreliable and outdated CoW reports to Congress, DoD decision makers, the GAO, and the OMB because of systemic internal control weaknesses in the CoW reporting process. Specifically, based on the review of DoD OIG and Service audit agency reports, we identified the following systemic internal control weaknesses.

- Army, Navy, Air Force, and Marine Corps personnel did not develop or update SOPs for documenting the receipt, review, and reporting of OIR and OFS costs.
- Army, Navy, Air Force, Marine Corps, and DFAS personnel did not update management tools and systems that allowed the DoD Component personnel to capture all OIR and OFS costs.
- Deputy Comptroller (Program/Budget) and Army personnel prioritized other tasks, such as budget closeout activities, ahead of the CoW report.

In the six CoW audit reports, the DoD OIG and Service audit agencies issued recommendations to address the internal control weaknesses identified in each of the various DoD Components. In our review of the six CoW audit reports, we issued recommendations to address the systemic internal control weaknesses identified in two or more DoD Components involved in the CoW reporting process.

### ***Incomplete or Undeveloped Standard Operating Procedures***

Based on our review of six CoW audit reports, we determined that Army, Navy, Air Force, and Marine Corps personnel did not develop or update SOPs for documenting the receipt, review, and reporting of OIR and OFS costs. DoD Regulation 7000.14-R states that each DoD Component will develop and publish an SOP that documents its receipt, review, and reporting of OCO costs. Establishing effective internal controls, such as SOPs, is essential to accurately and reliably reporting war-related OCO costs in the CoW report. However, the DoD OIG, Army Audit Agency, Naval Audit Service, and Air Force Audit Agency identified the following examples of incomplete or undeveloped SOPs documenting CoW reporting processes.

- In Report No. A-2018-0039-IEEX, the Army Audit Agency reported that Army personnel developed an overarching process to compile their CoW data. However, Army personnel did not develop SOPs documenting the processes and methodology required to capture war-related OCO costs for four of the eight appropriations related to OIR.

- In Report No. A-2018-0043-IEX, the Army Audit Agency reported that Army personnel developed an overarching process to compile their CoW data. However, Army personnel did not develop SOPs documenting the processes and methodology required to capture war-related OCO costs for 6 of the 13 appropriations related to OFS.
- In Report No. DODIG-2017-067, the DoD OIG reported that Navy personnel did not develop SOPs for 14 of the 30 CoW reporting processes reviewed. For example, Navy personnel did not provide an SOP documenting the processes used to compile and submit Operation and Maintenance information to DFAS for the CoW report. In addition, Navy personnel did not include the receipt, review, and reporting processes for obligation and disbursement amounts in the SOPs for the remaining 16 CoW reporting processes reviewed.
- In Report No. DODIG-2016-102, the DoD OIG reported that Air Force personnel did not document and implement reporting processes that included complete and accurate source data. Air Force personnel also used incomplete SOPs that did not detail when changes to war-related OCO costs could be made and how to document the changes to war-related OCO costs in the Air Force accounting system. In addition, Air Force personnel did not establish procedures for supporting, documenting, tracking, approving, and correcting changes to the obligation and disbursement amounts submitted to DFAS.
- In Report No. F2018-0002-L10000, the Air Force Audit Agency reported that Air Force personnel did not include instructions in the Investment appropriation SOP that accounted for obligations and disbursements of special access programs.
- In Report No. N2018-0016, the Naval Audit Service reported that Marine Corps personnel did not provide instructions to explain significant variances of obligation and disbursement amounts in their SOP. In addition, Marine Corps personnel stated that they were not aware of the DoD Regulation 7000.14-R requirement to update their SOPs.

The DoD OIG, Army Audit Agency, Naval Audit Service, and Air Force Audit Agency developed recommendations to address the Army, Navy, Air Force, and Marine Corps' incomplete and undeveloped SOPs that document their CoW reporting processes. Below is a summary of the status of each recommendation and the actions management took in response to those recommendations.

### *Summary of Recommendations—Updated Standard Operating Procedures*

The DoD OIG, Army Audit Agency, Naval Audit Service, and Air Force Audit Agency made 12 recommendations to Army, Navy, Air Force, and Marine Corps personnel related to developing, updating, and implementing SOPs for the CoW reporting processes. As of March 13, 2019, 10 recommendations are closed, and 2 recommendations are resolved but remain open. See Appendix B for a complete description of the recommendations and the status of the recommendations.

The Army Audit Agency made two recommendations to the Deputy Assistant Secretary of the Army for Budget to update Army SOPs with detailed processes for obtaining and compiling CoW data. In October 2018, Army personnel expanded and updated Army SOPs to identify source systems and establish detailed procedures to accurately compile monthly CoW data for each appropriation, resulting in the closure of two Army Audit Agency recommendations.

The DoD OIG made five recommendations to the Deputy Assistant Secretary for Budget, Office of the Assistant Secretary of the Air Force for Financial Management and Comptroller, to develop and implement Air Force SOPs that ensure all war-related OCO costs are consistently and accurately reported. In September 2017, Air Force personnel developed and implemented SOPs establishing war-related OCO cost reporting processes to report consistent and accurate data into CORAS, resulting in the closure of the five DoD OIG recommendations.

The Air Force Audit Agency made one recommendation to the Assistant Secretary of the Air Force for Financial Management and Comptroller to update the Investment appropriation SOP with details on how to include obligations and disbursements from special access programs in the CoW report. In December 2017, Air Force personnel added instructions to manually identify obligations and disbursements for special access programs in their Investment appropriation SOP, resulting in the closure of the Air Force Audit Agency's recommendation.

The Naval Audit Service made two recommendations to the Deputy Commandant of the Marine Corps for Programs and Resources to update the Marine Corps' SOPs to comply with DoD Regulation 7000.14-R and the Deputy Comptroller (Program/Budget)'s FY 2016 CoW reporting instructions. In March 2018, Marine Corps personnel added instructions to their SOPs that described data sources, change tracking, cost breakdown structure methodology, validation, and variance analysis, resulting in the closure of the two Naval Audit Service recommendations.

The DoD OIG made two recommendations to the Deputy Assistant Secretary of the Navy for Budget to develop and implement Navy SOPs that include details for the receipt, review, and reporting of war-related OCO costs, as well as guidance on the use of a consistent methodology for allocating war-related OCO costs. In February 2017, Navy personnel concurred with the two DoD OIG recommendations to develop and implement SOPs for the CoW reporting process and set a target implementation date of June 30, 2017. According to Navy personnel, the Navy was unable to meet its initial target date due to prioritizing natural disaster relief efforts and congressional budget justifications in FY 2018 over CoW reporting. On September 7, 2018, Navy personnel stated that they will update and approve an overarching SOP that covers details for the receipt, review, and reporting of war-related OCO costs, as well as guidance on using a consistent methodology for allocating war-related OCO costs. The new target implementation date for the overarching SOP is FY 2019. As of March 13, 2019, the two DoD OIG recommendations remained open.

From 2016 through 2018, the DoD OIG, Army Audit Agency, Naval Audit Service, and Air Force Audit Agency reported similar findings across the Army, Navy, Air Force, and Marine Corps related to their outdated or undeveloped SOPs that detail the CoW reporting process. In addition, Deputy Comptroller (Program/Budget) personnel stated that they do not have a review process to verify that DoD Components developed and updated SOPs detailing the CoW reporting process. However, the GAO's "Standards for Internal Control in the Federal Government" states that management should periodically review policies and procedures for continued relevance and effectiveness in achieving the entity's objectives.<sup>17</sup> Therefore, the Deputy Comptroller (Program/Budget) should develop and implement a review process to verify that the Services develop, review, update, and implement their CoW SOPs for accurate and consistent reporting of war-related OCO costs.

### ***Outdated Management Tools and Systems***

Based on our review of six CoW audit reports, we determined that Army, Navy, Air Force, Marine Corps, and DFAS personnel did not update management tools and systems that captured war-related OCO costs. DoD Regulation 7000.14-R requires that controls, accounting systems, and procedures identify and accurately record costs incurred to support OCOs. Regularly updating and maintaining accounting systems is essential to accurately identify and report war-related OCO costs. However, the DoD OIG and Service audit agencies identified the following examples of outdated management tools and systems that captured OIR and OFS costs.

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<sup>17</sup> Government Accountability Office, "Standards for Internal Control in the Federal Government," September 2014.

- In Report No. A-2018-0039-IEX, the Army Audit Agency reported that Army personnel did not update a query in the Army's accounting system to verify whether all OIR costs were captured.
- In Report No. DODIG-2017-067, the DoD OIG reported that Navy personnel did not update one of the four Navy accounting systems to provide transaction-level details for OFS obligation and disbursements amounts in the CoW reports.
- In Report No. F2018-0002-L10000, the Air Force Audit Agency reported that the Air Force's Excel spreadsheet to track war-related OCO costs did not include all codes used to identify programs and activities that support OFS and their associated costs.
- In Report No. N2018-0016, the Naval Audit Service reported that Marine Corps personnel did not update a query in their accounting system to provide historical transactions and details about war-related OCO transactions, such as the document number that supports the transaction, the specific date of the transaction, or the specific command that executes a specific transaction.
- In Report No. DODIG-2016-102, the DoD OIG reported that DFAS personnel did not update the FY 2015 business rules in CORAS to properly assign costs for a specific program under the Operation and Maintenance appropriation to OIR. DFAS personnel sent the business rules in CORAS to Air Force personnel to confirm that the business rules were valid for all operations. For DFAS personnel to update the business rules, Air Force personnel had to provide a response justifying a change. Even though DFAS personnel sent the business rules, Air Force personnel did not provide input related to the business rules for OIR costs.

The DoD OIG, Army Audit Agency, Naval Audit Service, and Air Force Audit Agency developed recommendations to address the DoD's outdated management tools and systems that capture war-related OCO costs. Below is a summary of the status of each recommendation and the actions taken by management in response to those recommendations.

### *Summary of Recommendations—Updated Management Tools and Systems*

The DoD OIG, Army Audit Agency, Naval Audit Service, and Air Force Audit Agency made five recommendations to Army, Navy, Air Force, Marine Corps, and DFAS personnel related to improving and updating management tools and systems to capture OIR and OFS costs. As of March 13, 2019, three recommendations are closed, and two recommendations are resolved but remain open. See Appendix B for a complete description of the recommendations and the status of the recommendations.

The Army Audit Agency made one recommendation to the Deputy Assistant Secretary of the Army for Budget to update a query in the Army's accounting system to ensure that the Army captures all OIR costs. In February 2018, Army personnel rewrote the query in the Army's accounting system, and Army Audit Agency personnel validated that it includes all OIR costs, resulting in the closure of the Army Audit Agency recommendation.

The Air Force Audit Agency made one recommendation to the Assistant Secretary of the Air Force for Financial Management and Comptroller to update the management tool used to capture OFS costs. In November 2017, Air Force personnel updated their management tool to include all codes used to identify OFS programs and activities and their associated costs, resulting in the closure of the Air Force Audit Agency recommendation.

The DoD OIG made one recommendation to the DFAS Enterprise Solutions and Standards Director, in coordination with the Office of the Deputy Assistant Secretary of the Air Force for Budget, to update the business rules in CORAS to reflect accurate OCO codes for OIR. In May 2016, DFAS personnel updated the business rules in CORAS to accurately assign an Operation and Maintenance appropriation program to OIR, resulting in the closure of the DoD OIG recommendation.

The Naval Audit Service made one recommendation to the Deputy Commandant of the Marine Corps for Programs and Resources to update the cost reporting process to include the level of detail that allows source data to be traced to the amounts reported in the CoW report. In response to the recommendation, Marine Corps personnel concurred with the Naval Audit Service recommendation and stated that their accounting system can only provide obligation and disbursement amounts at the time the data is extracted and at summary appropriation-level balances. They further stated that retaining voluminous data may prove unnecessary based on the Deputy Comptroller (Program/Budget)'s reporting guidance, which does not require tracing of source data to the appropriation-level balances. In addition, Marine Corps personnel stated that they would coordinate with the Office of the Deputy Comptroller (Program/Budget) to de-conflict the CoW reporting guidance and DoD Regulation 7000.14-R and set a target implementation date for this coordination of July 12, 2018.

On July 18, 2018, we followed up with Marine Corps personnel to discuss the status of the Naval Audit Service recommendation. Marine Corps personnel stated that they met with Deputy Comptroller (Program/Budget) personnel to discuss the reporting requirements and understood that the reporting requirements would not change. Marine Corps personnel stated that, because the Deputy

Comptroller (Program/Budget) does not require individual transaction-level detail for reporting purposes, the Marine Corps believes it has completed the requirements for the Naval Audit Service recommendation. However, Naval Audit Service personnel stated that the recommendation remained open, because the Marine Corps still needs a process to arrive at its transaction-level detail for the amounts submitted in the CoW report.

In addition, on July 24, 2018, we followed up with Deputy Comptroller (Program/Budget) personnel to confirm whether DoD Components are still required to maintain audit trails that are detailed enough to allow transactions and balances to be traced from their sources to the amounts reported in the CoW report. Deputy Comptroller (Program/Budget) personnel validated that this requirement from DoD Regulation 7000.14-R still applies to the DoD Components. Deputy Comptroller (Program/Budget) personnel also stated that they informed Marine Corps personnel that the Deputy Comptroller (Program/Budget) would not remove the requirement to provide transaction-level detail for the amounts submitted in the CoW report.

In August 2018, the Assistant Auditor General for Financial Management and Comptroller Audits from the Naval Audit Service spoke with a Marine Corps senior executive to discuss the status of the recommendation. The Marine Corps senior executive stated that he would provide a plan to address the open recommendation. On October 30, 2018, Marine Corps personnel provided an updated SOP to close the recommendation. However, Naval Audit Service personnel stated that the SOP did not update the cost reporting process to include the level of detail that allows source data to be traced to the amounts reported in the CoW report. Therefore, Naval Audit Service personnel requested a revised target implementation date. As of March 13, 2019, the Naval Audit Service recommendation remained open.

The DoD OIG made one recommendation to the Deputy Assistant Secretary of the Navy for Financial Operations, Accounting and Financial Reporting Division, and the Deputy Assistant Secretary of the Navy for Budget, to reengineer processes to identify the Navy's war-related OCO transactions. Navy personnel concurred with the recommendation and stated that their transition to the Marine Corps accounting system in October 2019 would enable Navy personnel to identify the Navy's war-related OCO transactions and cost allocations used to support CoW reporting. However, Navy personnel were unaware of Naval Audit Service Report No. N2018-0016, which identified that the Marine Corps accounting system could not provide historical transactions and details about war-related OCO transactions, such as the document number that supports the transaction, the specific date of the transaction, or the specific command that executes a specific transaction. On September 7, 2018, Navy personnel stated that they

would work with DFAS to determine how to capture war-related OCO costs through the Marine Corps accounting system. As of March 13, 2019, the DoD OIG recommendation remained open.

The Naval Audit Service confirmed that the Marine Corps accounting system cannot provide details of war-related OCO transactions that support summary balances in the CoW reports. When the Navy transitions to the Marine Corps accounting system in October 2019, Navy personnel will not be able to provide details of war-related OCO transactions. DoD Regulation 7000.14-R requires DoD Components to maintain audit trails that are detailed enough to allow transactions and balances to be traced from their sources to the amounts reported in the CoW report. Therefore, the Under Secretary of the Navy, in coordination with the Assistant Secretary of the Navy for Financial Management and Comptroller and the Deputy Commandant of the Marine Corps for Programs and Resources, should develop and implement procedures to capture the required level of detail of war-related OCO costs through the Marine Corps accounting system.

From 2016 through 2018, the DoD OIG, Army Audit Agency, Naval Audit Service, and Air Force Audit Agency reported issues related to management tools and systems that did not capture all OIR and OFS costs. DoD Regulation 7000.14-R requires that controls, accounting systems, and procedures identify and accurately record costs incurred to support OCOs. In addition, the GAO's "Standards for Internal Control in the Federal Government" states that management should design information systems to identify complete, accurate, and valid transactions. Therefore, the Deputy Comptroller (Program/Budget), Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, in coordination with the Defense Finance and Accounting Service Director and each Service's Assistant Secretary for Financial Management and Comptroller, should develop and implement a review process to verify that DoD Components update their management tools and accounting systems to properly identify and record war-related OCO costs.

In addition, the Army Audit Agency, Naval Audit Service, and Air Force Audit Agency should include followup audits that verify the accuracy of the Army, Navy, and Air Force's CoW data in their FY 2020 audit plans.

### ***Low Priority of Cost of War Data Submission***

Based on our review of six CoW audit reports, we determined that Deputy Comptroller (Program/Budget) and Army personnel did not prioritize the submission of CoW data from FYs 2015 and 2016. Since 2006, Public Law 109-163 has required the submission of the CoW report to Congress and the GAO within 45 days of the end of the reporting period. Prioritizing the CoW report enables

Deputy Comptroller (Program/Budget) and Army personnel to submit CoW data by the required deadlines. However, the DoD OIG and Army Audit Agency identified the following examples of Deputy Comptroller (Program/Budget) and Army personnel prioritizing other tasks over the CoW reports.

- In Report No. DODIG-2016-102, the DoD OIG reported that Deputy Comptroller (Program/Budget) personnel set aside completion of the third quarter FY 2015 CoW reports to focus on higher-priority responsibilities, such as completing budget submissions.
- In Report No. A-2018-0039-IEEX, the Army Audit Agency reported that Army personnel were engaged in budget closeout activities for the end of the fiscal year. Army personnel also needed additional time to analyze and manually input the September 2016 CoW data into CORAS.

The DoD OIG developed a recommendation to address Deputy Comptroller (Program/Budget) personnel not prioritizing the issuance of the CoW report. The Army Audit Agency reported that Army personnel submitted their CoW data an average of 4 days late in FY 2016. Therefore, the Army Audit Agency did not make any recommendations to address the late submissions of the Army's CoW data because the Army's late submissions did not materially affect the overall timeliness of the CoW reports, which were issued an average of 67 days late in FY 2016. Below is a summary of the status of the recommendation and the actions management took in response to the recommendation.

### *Summary of Recommendation—Adjustments to the Frequency and Reporting Milestones for Future Cost of War Reports*

The DoD OIG made one recommendation to the Deputy Comptroller (Program/Budget) to coordinate with Congress to adjust the legal requirements for the frequency and reporting timetable of the 2017 CoW reports or provide the resources necessary to review and issue the CoW report, prioritizing its completion to meet the submission deadline of 45 days after the reporting period. In October 2017, the DoD OIG closed the recommendation. See Appendix B for a complete description of the recommendation and the status of the recommendation.

Between June 23, 2016, and May 5, 2017, Deputy Comptroller (Program/Budget) personnel coordinated with Congress to adjust the frequency and reporting timetables for the 2017 CoW report. On May 5, 2017, Congress changed the frequency of the CoW reporting requirement from monthly to quarterly.<sup>18</sup> However, the 45-day reporting timetable did not change. Because Congress changed the

<sup>18</sup> Mr. Rodney Frelinghuysen, Chairman of the House Committee on Appropriations, submitted an explanatory statement regarding the House Amendment to Senate Amendment Numbered 1 to H.R. 244, "Consolidated Appropriations Act, 2017," Public Law 115-31, May 5, 2017.

frequency of the CoW reporting requirement from monthly to quarterly and Deputy Controller (Program/Budget) personnel stated that they would continue to engage with congressional staffers to revise the CoW reporting timetable from 45 days to 60 days, the DoD OIG closed the recommendation.

The most recent statutory requirement—Public Law 115-91—states that the Secretary of Defense is required to submit the CoW report no later than 45 days after the end of each fiscal quarter.<sup>19</sup> However, Deputy Comptroller (Program/Budget) personnel stated that the CoW report could not be issued on time under the 45 day CoW reporting requirement. Deputy Comptroller (Program/Budget) personnel also stated that DFAS personnel need 30 days to process the CoW data and submit the final CoW report to the Office of the Deputy Comptroller (Program/Budget). As a result, Deputy Comptroller (Program/Budget) personnel only have 15 days to review and approve the CoW report. The approval process requires review at seven different levels.

Although the reporting frequency of the CoW reports changed from monthly to quarterly, Deputy Comptroller (Program/Budget) personnel issued the first quarter CoW report 146 days late and the second quarter CoW report 64 days late in FY 2018. Deputy Comptroller (Program/Budget) personnel stated that these two CoW reports were issued late because of personnel turnover, updates required for the reporting frequency change, and CoW data corrections required by the Services. The third quarter FY 2018 CoW report was issued on September 7, 2018, which was 24 days late. The fourth quarter FY 2018 CoW report was issued on December 21, 2018, which was 37 days late.

From 2016 through 2018, the DoD OIG and Army Audit Agency reported similar issues related to the timely submission of the CoW report. Deputy Comptroller (Program/Budget) personnel coordinated with Congress to change the frequency of the CoW report from monthly to quarterly starting in FY 2018. However, the first, second, third, and fourth quarter FY 2018 CoW reports continued to be issued late. Therefore, the Deputy Secretary of Defense, in coordination with the Deputy Comptroller (Program/Budget), Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, the Defense Finance and Accounting Service Director, and each Service's Assistant Secretary for Financial Management and Comptroller, should enforce the requirement for DoD Components involved in the CoW reporting process to submit their CoW data within the established timelines and issue the CoW report within 45 days of the end of the reporting period, or coordinate with Congress to request an adjustment to the legal requirements for the reporting timetable.

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<sup>19</sup> Public Law 115-91, "National Defense Authorization Act for Fiscal Year 2018," section 1266, "Submittal of Department of Defense Supplemental and Cost of War Execution Reports on Quarterly Basis," December 12, 2017.

## Conclusion

In FYs 2015 and 2016, Deputy Comptroller (Program/Budget) personnel issued unreliable and outdated CoW reports to stakeholders, including Congress, DoD decision makers, the GAO, and the OMB. Federal and DoD stakeholders use CoW reports to maintain accountability of funds in support of war-related OCOs, analyze war-related OCO execution trends, and make budgetary decisions. However, the systemic internal control weaknesses identified in the CoW audit reports issued from 2016 through 2018 demonstrate that senior DoD personnel need to exercise greater oversight over the CoW reporting process to report accurate and timely war-related OCO costs. Until senior DoD personnel correct these systemic internal control weaknesses in the CoW reporting process, Congress, DoD decision makers, and the GAO may not accurately determine execution trends or make informed budgetary decisions for OIR and OFS.

## Recommendations, Management Comments, and Our Response

### ***Recommendation 1***

**We recommend that the Deputy Comptroller (Program/Budget), Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, develop and implement a review process to verify that the DoD Components develop, review, update, and implement their Cost of War standard operating procedures for accurate and consistent reporting of war-related overseas contingency operation costs.**

### *Deputy Comptroller (Program/Budget) Comments*

The Operations Director, responding for the Deputy Comptroller (Program/Budget), Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, agreed with the recommendation, stating that the Office of the Under Secretary of Defense (Comptroller) will include language in the yearly CoW reporting guidance and instructions requiring DoD Components to review, update, and implement their CoW SOPs to accurately and consistently report war-related OCO costs. The Operations Director also stated that DoD Regulation 7000.14-R requires each DoD Component to develop and publish an SOP or supplemental guidance that will address Component-specific items for cost reporting.

### *Our Response*

Comments from the Operations Director partially addressed the recommendation; therefore, the recommendation is unresolved. We agree that DoD Regulation 7000.14-R requires each Component to develop and publish an SOP that will

address Component-specific items for cost reporting. However, based on our review of six CoW audit reports, even with these SOP requirements—which have been in effect since September 2007—Army, Navy, Air Force, and Marine Corps personnel did not develop or update SOPs for documenting the receipt, review, and reporting of war-related OCO costs in FYs 2015 and 2016. As a result, the Services did not accurately report war-related OCO costs in the CoW reports. As of March 13, 2019, Army, Air Force, and Marine Corps personnel have developed and updated their respective CoW SOPs to document the process for receiving, reviewing, and reporting OCO costs. However, Navy personnel have not issued their updated CoW SOP.

In addition, the Operations Director stated that the Office of the Under Secretary of Defense (Comptroller) will include language in the yearly CoW reporting guidance and instructions requiring DoD Components to review, update, and implement its CoW SOPs. We do not agree that the additional language in the yearly CoW reporting guidance and instructions will ensure that the DoD Components comply with DoD Regulation 7000.14-R. The Office of the Under Secretary of Defense (Comptroller) would only be restating the requirements that have been in effect since September 2007. According to DoD Instruction 7000.14, the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, is responsible for monitoring DoD Components' compliance with DoD Regulation 7000.14-R. Therefore, we request that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, provide additional comments that describe the specific actions that she will take to verify that DoD Components met the SOP requirements of DoD Regulation 7000.14-R to develop, review, update, and implement CoW SOPs for accurate and consistent reporting of war-related OCO costs.<sup>20</sup>

## ***Recommendation 2***

**We recommend that the Under Secretary of the Navy, in coordination with the Assistant Secretary of the Navy for Financial Management and Comptroller and the Deputy Commandant of the Marine Corps for Programs and Resources, develop and implement procedures to capture the required level of detail of war-related overseas contingency operation costs in the respective accounting system.**

### ***Under Secretary of the Navy Comments***

The Under Secretary of the Navy agreed with the recommendation, stating that the Department of the Navy understands the importance of documenting the required level of detail for the CoW report as required by DoD Regulation 7000.14-R. The

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<sup>20</sup> DoD Instruction 7000.14, "Department of Defense Financial Management Policy and Procedures," March 3, 2006, Incorporating Change 1, September 17, 2008.

Under Secretary of the Navy also stated that the Department of the Navy captured the required level of detail for war-related OCO costs in the Navy and Marine Corps accounting systems. According to DoD Regulation 7000.14-R, DoD Components should establish and document an auditable methodology to capture incremental OCO costs when actual costs are not available. As a result, Navy personnel measure the cost of contingency operations by aggregating total operations costs and then identifying an appropriate portion of the obligations as incremental costs for the CoW report. In addition, the Under Secretary of the Navy stated that the Deputy Commandant of the Marine Corps for Programs and Resources conducted a thorough review of the fiscal coding structure that captures all OCO obligations and disbursements in the Marine Corps accounting system. As a result of the review, Marine Corps personnel implemented a policy to manage the codes that identify OCO obligations and disbursements in the Marine Corps accounting system, improving the accuracy of OCO costs reported in the CoW report.

#### *Deputy Commandant of the Marine Corps for Programs and Resources Comments*

Although not required to comment, the Head of Audit Coordination at the Office of the Director, Marine Corps Staff, responding for the Deputy Commandant of the Marine Corps for Programs and Resources, agreed with the recommendation. The Head of Audit Coordination stated that the Deputy Commandant of the Marine Corps for Programs and Resources conducted a thorough review of the fiscal coding structure that captures all OCO costs and implemented a policy to manage the codes that identify OCO obligations and disbursements in the Marine Corps accounting system, improving the accuracy of OCO costs reported in the CoW report.

#### *Our Response*

Comments from the Under Secretary of the Navy partially addressed the recommendation; therefore, this recommendation is unresolved. The Under Secretary of the Navy stated that Navy personnel developed a methodology that measures the cost of contingency operations by aggregating total operations costs and then identifying an appropriate portion of the obligations as incremental costs for the CoW report. The Under Secretary of the Navy also stated that the Deputy Commandant of the Marine Corps for Programs and Resources implemented a policy to manage the fiscal codes that identify OCO obligations and disbursements in the Marine Corps accounting system. We agree that these actions taken by the Navy and Marine Corps can improve the identification of war-related OCO costs reported in the CoW report. However, the Navy's and Marine Corps' actions may not produce the level of detail for war related OCO transactions in accordance with

DoD Regulation 7000.14-R, which requires DoD Components to maintain audit trails that are detailed enough to allow transactions and balances to be traced from their sources to the amounts reported in the CoW report.

In Report No. DODIG-2017-067, Navy personnel stated that Navy commands started transitioning to the Marine Corps accounting system in FY 2016. In December 2018, Navy personnel stated that they plan to complete the transition by October 2019. However, in Report No. N2018-0016, the Naval Audit Service determined that the Marine Corps accounting system could not provide transaction-level details about war-related OCO costs, such as the document number that supports the transaction, the specific date of the transaction, or the specific command that executes a specific transaction. As of March 12, 2019, Naval Audit Service personnel stated that Marine Corps personnel have not provided the support required for Naval Audit Service personnel to verify that the Marine Corps accounting system includes the level of detail that allows source data to be traced to the amounts reported in the CoW report. As a result, when the Navy fully transitions to the Marine Corps accounting system, Navy and Marine Corps personnel may not be able to capture the required level of detail of war-related OCO costs in the Marine Corps accounting system.

The Under Secretary of the Navy stated that Marine Corps personnel issued a policy to manage the fiscal codes that identify OCO obligations and disbursements in the Marine Corps accounting system. We agree that implementing internal controls such as the Marine Corps' policy can improve the accuracy of costs within an accounting system. However, the Under Secretary of the Navy did not specify whether the Marine Corps' policy includes procedures to capture transaction-level details of war-related OCO costs such as the document number that supports the transaction, the specific date of the transaction, or the specific command that executes a specific transaction. In addition, the Under Secretary of the Navy did not specify the procedures that Navy personnel will develop and implement to capture the required level of detail in the Marine Corps accounting system. Therefore, we request that the Under Secretary of the Navy provide additional comments that describe the specific actions that he will take to enable Navy and Marine Corps personnel to capture the required level of detail for war-related OCO costs in the Marine Corps accounting system.

### **Recommendation 3**

**We recommend that the Deputy Comptroller (Program/Budget), Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, in coordination with the Defense Finance and Accounting Service Director and each Service's Assistant Secretary for Financial Management and Comptroller, develop and implement a review process to verify that DoD Components update their management tools and accounting systems to properly identify and record war-related overseas contingency operation costs.**

#### *Deputy Comptroller (Program/Budget) Comments*

The Operations Director, responding for the Deputy Comptroller (Program/Budget), Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, disagreed with the recommendation, and stated that, according to DoD Regulation 7000.14-R, DoD Components are responsible for transmitting cost information for contingency operations to DFAS through the appropriate DoD Component Senior Financial Manager, designating a unique code that identifies costs related to each contingency operation, and capturing contingency operation costs at the lowest possible level of the organization.

#### *Our Response*

Comments from the Operations Director did not address the specifics of the recommendation; therefore, the recommendation is unresolved. We agree that DoD Regulation 7000.14-R requires DoD Components to transmit contingency operation costs to DFAS, designate a unique code for each contingency operation, and capture contingency operation costs at the lowest possible level of the organization. However, DoD Regulation 7000.14-R also requires DoD Components to maintain controls, accounting systems, and procedures to properly identify and record costs in support of contingency operations. Based on our review of six CoW audit reports, we determined that Army, Navy, Air Force, Marine Corps, and DFAS personnel did not update management tools and systems that captured war-related OCO costs from FYs 2015 and 2016. According to DoD Instruction 7000.14, the Under Secretary of Defense (Comptroller) is responsible for monitoring DoD Components' compliance with DoD Regulation 7000.14-R. Therefore, the Deputy Comptroller (Program/Budget), Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, should develop and implement a review process to continually evaluate and confirm whether DoD Components maintained controls, accounting systems, and procedures in accordance with DoD Regulation 7000.14-R. We request that the Deputy Comptroller (Program/Budget) provide additional comments that describe the specific actions that she will take to verify that DoD Components updated their management tools and accounting systems to properly identify and record war-related OCO costs.

## **Recommendation 4**

**We recommend that the Auditor General of the Army, Auditor General of the Navy, and Auditor General of the Air Force include followup audits that verify the accuracy of the Cost of War data in their FY 2020 audit plans.**

### *Auditor General of the Army Comments*

The Auditor General of the Army agreed with the recommendation, stating that the Army Audit Agency will include an audit that verifies the accuracy of the Army's CoW data in the Army Audit Agency's FY 2020 audit plan. The Army Audit Agency plans to complete the FY 2020 audit plan by September 30, 2019.

### *Acting Auditor General of the Navy Comments*

The Acting Auditor General of the Navy agreed with the recommendation, stating that the Naval Audit Service will include an audit that follows up on the findings and recommendations of the Naval Audit Service Report No. N2018-0016, "Marine Corps Financial Data for Operations Freedom's Sentinel," February 2, 2018, in the Naval Audit Service's FY 2020 audit plan. The Naval Audit Service plans to complete the draft FY 2020 audit plan by October 1, 2019.

### *Auditor General of the Air Force Comments*

The Auditor General of the Air Force agreed with the recommendation, stating that the Air Force Audit Agency will include a followup audit that verifies the accuracy of the Air Force's CoW data in the Air Force Audit Agency's FY 2020 audit plan. The Air Force Audit Agency plans to complete the FY 2020 audit plan by September 30, 2019.

### *Our Response*

Comments from the Auditor General of the Army, Acting Auditor General of the Navy, and Auditor General of the Air Force addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close this recommendation once we receive the final audit reports that assessed the accuracy of the CoW data from the Army Audit Agency, Naval Audit Service, and Air Force Audit Agency.

## **Recommendation 5**

**We recommend that the Deputy Secretary of Defense, in coordination with the Deputy Comptroller (Program/Budget), Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, the Defense Finance and Accounting Service Director, and each Service's Assistant Secretary for Financial Management and Comptroller, enforce the requirement for DoD Components involved in the Cost of War reporting process to submit their Cost of War data within the established timelines and issue the Cost of War report within 45 days of the end of the reporting period, or coordinate with Congress to request an adjustment to the legal requirements for the reporting timetable.**

### *Deputy Secretary of Defense Comments*

The Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, performing the duties of the Deputy Secretary of Defense, agreed with the recommendation, and stated that the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer will enforce the requirement for DoD Components to submit CoW data within the established timelines and issue the CoW report within the 45-day statutory CoW reporting requirement. The Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, also stated that Public Law 115-91 changed the statutory CoW reporting requirement from monthly to quarterly, thereby, significantly reducing the workload associated with producing the CoW report.<sup>21</sup> In addition, the Under Secretary of Defense (Comptroller)/Chief Financial Officer stated that the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer will continue to engage with DFAS and Service personnel to streamline the report and eliminate redundancies to submit the CoW report in a timely manner.

### *Our Response*

Comments from the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, addressed all specifics of the recommendation; therefore, this recommendation is resolved but will remain open. The Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, stated that the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, will enforce the requirements of the CoW reporting process. We will close this recommendation once we verify that the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD issued a quarterly FY 2019 CoW report within the 45-day statutory CoW reporting requirement.

<sup>21</sup> Public Law 115-91, "National Defense Authorization Act for Fiscal Year 2018," section 1266, "Submittal of Department of Defense Supplemental and Cost of War Execution Reports on Quarterly Basis," December 12, 2017.

## Appendix A

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### Scope and Methodology

We conducted this summary audit from June through December 2018. We followed generally accepted government auditing standards, except for the standards of planning and evidence because the audit objective was to summarize the systemic weaknesses identified in the CoW audit reports issued by the DoD OIG, Army Audit Agency, Naval Audit Service, and Air Force Audit Agency from 2016 through 2018. Since we relied on the work of others, we performed procedures that provided a sufficient basis for using the results identified in the CoW audit reports. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

From 2016 through 2018, the DoD OIG, Army Audit Agency, Naval Audit Service, and Air Force Audit Agency issued six audit reports related to CoW reporting for OIR and OFS. For each audit report, we reviewed the reported problems, the identified causes and effects of those problems, and the recommendations to correct the internal control weaknesses. Based on our review, we identified systemic internal control weaknesses that impacted the CoW reporting process. We then summarized the overall results and issued recommendations to senior DoD officials to address the systemic internal control weaknesses. We did not review the supporting documentation for any of the six audit reports.

We reviewed the following reports.

- Army Audit Agency Report No. A-2018-0043-IE, “Reporting Expenditures for Operation Freedom’s Sentinel,” April 5, 2018
- Air Force Audit Agency Report No. F2018-0002-L10000, “Air Force Cost of War Report—Operation Freedom’s Sentinel,” April 4, 2018
- Army Audit Agency Report No. A-2018-0039-IE, “Reporting Expenditures for Operation Inherent Resolve,” March 26, 2018
- Naval Audit Service Report No. N2018-0016, “Marine Corps Financial Data for Operation Freedom’s Sentinel,” February 2, 2018
- DoD OIG Report No. DODIG-2017-067, “Navy Inaccurately Reported Costs for Operation Freedom’s Sentinel in the Cost of War Reports,” March 16, 2017
- DoD OIG Report No. DODIG-2016-102, “Additional Controls Needed to Issue Reliable DoD Cost of War Reports That Accurately Reflect the Status of Air Force Operation Inherent Resolve Funds,” June 23, 2016

In addition, we interviewed personnel from the Army Audit Agency, Naval Audit Service, and Air Force Audit Agency to determine the status of the recommendations issued in their reports. For recommendations that the Service audit agencies closed, we obtained and reviewed the supporting documentation used to close the recommendations. For the two DoD OIG audit reports reviewed, we interviewed personnel from the Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) and the Deputy Comptroller (Program/Budget) to determine whether previous recommended actions were implemented. If the recommendation was implemented, we obtained and reviewed supporting documentation to determine if the recommendation should be closed or remain resolved.

## Use of Computer-Processed Data

We did not use computer-processed data to perform this audit.

## Prior Coverage

During the last 5 years, the DoD OIG, Army Audit Agency, Naval Audit Service, and Air Force Audit Agency issued six audit reports related to CoW reporting for OIR and OFS.

### ***DoD OIG***

Report No. DODIG-2017-067, “Navy Inaccurately Reported Costs for Operation Freedom’s Sentinel in the Cost of War Reports,” March 16, 2017

The DoD OIG determined that Navy personnel could not support \$866.3 million (91.3 percent) in obligations or the related disbursements reported in the first quarter FY 2016 CoW reports. As a result, the Navy could not provide assurance that it accurately reported OFS obligations and disbursements to Congress for first quarter FY 2016 and could not ensure accountability for the spending of OCO funds.

In addition, the DoD OIG determined that the Navy did not have adequate CoW reporting processes to ensure accurate reporting of first quarter FY 2016 OFS costs. Specifically, Navy personnel inaccurately reported \$20.1 million in obligations and \$85.4 million in disbursements. Navy personnel also did not limit cost reporting to incremental costs. As a result, the Navy’s CoW reports for first quarter FY 2016 were not reliable or useful for congressional decision makers.

Report No. DODIG-2016-102, “Additional Controls Needed to Issue Reliable DoD Cost of War Reports That Accurately Reflect the Status of Air Force Operation Inherent Resolve Funds,” June 23, 2016

The DoD OIG determined that Air Force personnel inaccurately represented Air Force OIR costs in the CoW reports issued for third quarter FY 2015 by underreporting \$237.9 million in obligations and \$209.9 million in disbursements. In addition, Deputy Comptroller (Program/Budget) personnel issued the FY 2015 CoW reports an average of 125 days after the end of each reporting period, which did not comply with the 45-day requirement established in the FY 2006 National Defense Authorization Act.<sup>22</sup> As a result, the Deputy Comptroller (Program/Budget) issued unreliable and outdated CoW reports, which diminished the relevance of information provided to the GAO for analyzing war-related OCO execution rates and to Congress for making budget decisions.

## **Army**

Report No. A-2018-0043-IEX, “Reporting Expenditures for Operation Freedom’s Sentinel,” April 5, 2018

The Army Audit Agency determined that Army personnel accurately reported most of their financial data that supported \$21.9 billion in cumulative OFS obligations from the September FY 2016 CoW report. However, Army personnel overreported about \$25 million in obligations for the Military Personnel, Army appropriation. While the Army’s overreported obligation amount of \$25 million appeared immaterial, the Army Audit Agency stated that inaccurate reporting diminishes the relevance of financial information that the Army provides to the DoD for use by the GAO and Congress.

In addition, the Army Audit Agency determined that Army personnel submitted their FY 2016 CoW financial data an average of 4 days late. The Army’s late submissions of execution data did not appear to materially impact the timeliness of the DoD’s monthly CoW reports.

Report No. A-2018-0039-IEX, “Reporting Expenditures for Operation Inherent Resolve,” March 26, 2018

The Army Audit Agency determined that Army personnel accurately reported most of their financial data that supported \$2.5 billion in cumulative OIR obligations from the September FY 2016 CoW report. However, Army personnel

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<sup>22</sup> Public Law 109-163, “National Defense Authorization Act for Fiscal Year 2006,” section 1221, “War-Related Reporting Requirements,” January 6, 2006.

underreported about \$25 million in obligations for the Military Personnel, Army appropriation and about \$25,000 in obligations for the Operation and Maintenance, Army appropriation. While the Army's underreported obligation amounts appeared immaterial, the Army Audit Agency stated that inaccurate reporting diminishes the relevance of financial information that the Army provides to the DoD for use by the GAO and Congress.

In addition, the Army Audit Agency determined that Army personnel submitted their FY 2016 CoW financial data an average of 4 days late. The Army's late submissions of execution data did not appear to materially impact the timeliness of the DoD's monthly CoW reports.

## ***Navy***

Report No. N2018-0016, "Marine Corps Financial Data for Operation Freedom's Sentinel," February 2, 2018

The Naval Audit Service determined that Marine Corps personnel could not support \$127.9 million in obligation and \$92.9 million in disbursement amounts reported under the Operations and Maintenance OFS appropriation for the third quarter FY 2016 CoW reports. As a result, Marine Corps personnel may report inaccurate obligation and disbursement amounts to decision makers and Congress. In addition, Marine Corps personnel did not fully comply with DoD minimum requirements for eight footnote disclosures associated with variances in the Operations and Maintenance appropriation. Incomplete footnote disclosures may lead decision makers and Congress to incorrectly interpret variances in appropriations. The Naval Audit Service also found opportunities for Headquarters Marine Corps to improve oversight and monitoring of the war-related OCO cost reporting process, impacting the Marine Corps' ability to ensure that the CoW reporting process provides accurate and reliable war-related OCO costs in the CoW report.

## ***Air Force***

Report No. F2018-0002-L10000, "Air Force Cost of War Report—Operation Freedom's Sentinel," April 4, 2018

The Air Force Audit Agency determined that Air Force personnel accurately reported obligations and disbursements for Military Personnel and Operation and Maintenance appropriations in the September 2016 CoW report. However, Air Force personnel did not accurately report \$24.4 million out of \$243.8 million OFS obligations and disbursements for Investment appropriations in the September 2016 CoW report. As a result, Air Force personnel provided inaccurate OFS costs in the DoD's CoW report to Congress.

## Appendix B

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### Status of Recommendations

Since 2016, the DoD OIG, Army Audit Agency, Naval Audit Service, and Air Force Audit Agency issued six audit reports related to CoW reporting for OIR and OFS. In the six audit reports, the DoD OIG and Service audit agencies made 26 recommendations to various DoD officials to address weaknesses in the DoD's accounting for war-related costs associated with ongoing overseas contingency operations. Of the 26 recommendations, 19 recommendations are closed, and 7 recommendations are resolved but remain open until the DoD OIG and the Naval Audit Service verify that the proposed corrective actions are completed. The table below shows the status and details of each recommendation.

The following categories are used to describe agency management's comments to individual recommendations.

- **Closed** – The DoD OIG or Service audit agency has verified that the agreed upon corrective actions were implemented.
- **Resolved** – Management agreed to implement the recommendations or has proposed actions that will address the underlying finding that generated the recommendation.
- **Unresolved** – Management has not agreed to implement the recommendation or has not proposed actions that will address the recommendations.

*The table on the next page has been updated as of the date of this report.*

Table. Status of Recommendations

	Recommendation Number in Report	Recommendation Directed To	Recommendation Text	Status
<b>Air Force Audit Agency Report No. F2018-0002-L10000, "Air Force Cost of War Report—Operation Freedom's Sentinel," April 4, 2018</b>				
1	A.1	Assistant Secretary of the Air Force (Financial Management and Comptroller)	Direct the investment appropriation analyst to correct the discrepancies identified.	Closed
2	A.2	Assistant Secretary of the Air Force (Financial Management and Comptroller)	Direct the investment appropriation analyst to update the standard operating procedure and the management tool used to capture Operation Freedom's Sentinel costs.	Closed
<b>Naval Audit Service Report No. N2018-0016, "Marine Corps Financial Data for Operation Freedom's Sentinel," February 2, 2018</b>				
3	1	Deputy Commandant, Programs and Resources	Update the cost reporting process to include the level of detail necessary to permit the tracing of command balances to the amounts reported in the Cost of War Report.	Resolved
4	2	Deputy Commandant, Programs and Resources	Establish a review process to identify that minimum disclosures for significant variances are in compliance with the DoD Financial Management Regulation, volume 12, chapter 23, and the Office of the Under Secretary of Defense (Comptroller) Memorandum for FY 2016 Instructions for Reporting on the Cost of War.	Closed
5	3	Deputy Commandant, Programs and Resources	Update the Marine Corps standard operating procedures to ensure compliance with DoD Financial Management Regulation Standard Operating Procedure minimum requirements.	Closed
6	4	Deputy Commandant, Programs and Resources	Communicate and establish training for personnel involved in the overseas contingency operations reporting process regarding incorporated changes to the Marine Corps standard operating procedures.	Resolved
7	5	Commandant of the Marine Corps	Establish internal controls to provide sufficient oversight and monitoring of the overseas contingency operations cost reporting process at the headquarters level.	Resolved
<b>Army Audit Agency Report No. A-2018-0039-IE, "Reporting Expenditures for Operation Inherent Resolve," March 26, 2018</b>				
8	1	Deputy Assistant Secretary of the Army (Budget)	Expand existing standard operating procedures detailing the Army's processes to obtain and compile its monthly financial data. At a minimum, ensure that the standard operating procedures include details about the source systems and methodology used for recording financial data for all overseas contingency operations and each applicable appropriation that supports Cost of War reporting.	Closed

*Status of Recommendations (cont'd)*

	Recommendation Number in Report	Recommendation Directed To	Recommendation Text	Status
9	2	Deputy Assistant Secretary of the Army (Budget)	Modify the methodology used to compile the Army's financial data for the Military Personnel, Army appropriation to ensure all expenditures are properly allocated to the correct overseas contingency operations and cost breakdown structure codes, which will help improve the accuracy of the Army's Cost of War reporting. Furthermore, ensure that the modified methodology is included within standard operating procedures developed as part of Recommendation 1.	Closed
10	3	Deputy Assistant Secretary of the Army (Budget)	Immediately update the query in the General Fund Enterprise Business System to ensure that it captures all non-overseas contingency operations-related management decision packages omitted from the original query.	Closed
11	4	Deputy Assistant Secretary of the Army (Budget)	Test the capability, functionality, and accuracy of General Fund Enterprise Business System' Cost of War tool. If the tool works as intended, use it for future Cost of War reporting. In addition, update applicable standard operating procedures to incorporate using the tool.	Closed
<b>DoD OIG Report No. DODIG-2017-067, "Navy Inaccurately Reported Costs for Operation Freedom's Sentinel in the Cost of War Reports," March 16, 2017</b>				
12	A	Deputy Assistant Secretary of Financial Operations, Accounting and Financial Reporting Division, and Deputy Assistant Secretary for Budget, in coordination with the Pacific Fleet Command Comptroller and the U.S. Fleet Forces Command Comptroller	Reengineer processes to identify the Navy's transactions for Overseas Contingency Operations.	Resolved
13	B.1	Deputy Assistant Secretary for Budget in coordination with Navy budget submitting offices and support activities	Develop and implement standard operating procedures that cover end-to-end Cost of War reporting processes. These standard operating procedures should include, at a minimum, procedures for the receipt, review, and reporting of obligations and disbursements for Operation Freedom's Sentinel to ensure costs are accurately reflected in the Cost of War reports.	Resolved

Status of Recommendations (cont'd)

	Recommendation Number in Report	Recommendation Directed To	Recommendation Text	Status
14	B.2	Deputy Assistant Secretary for Budget	Develop and issue updated guidance that requires Navy activities to, at a minimum, use a consistent methodology for allocating incremental operations and depot-level maintenance costs, as required by Public Law 113-235, "The Consolidated and Further Continuing Appropriations Act, 2015," and defined by DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 12, chapter 23.	Resolved
<b>DoD OIG Report No. DODIG-2016-102, "Additional Controls Needed to Issue Reliable DoD Cost of War Reports That Accurately Reflect the Status of Air Force Operation Inherent Resolve Funds," June 23, 2016</b>				
15	1.a	Deputy Assistant Secretary for Budget, Office of the Assistant Secretary of the Air Force (Financial Management and Comptroller)	Develop and implement standard operating procedures that include operation-specific guidance to ensure all necessary costs are consistently and accurately reported into the Contingency Operations Reporting and Analysis Service. The standard operating procedures should establish reporting processes to ensure that all necessary information is available before reporting deadlines. If actual costs are not available, a process should be developed for estimating the flying hour costs for the current month and adjusting the subsequent month to reflect actual costs.	Closed
16	1.b	Deputy Assistant Secretary for Budget, Office of the Assistant Secretary of the Air Force (Financial Management and Comptroller)	Develop and implement standard operating procedures that include operation-specific guidance to ensure all necessary costs are consistently and accurately reported into the Contingency Operations Reporting and Analysis Service. The standard operating procedures should define parameters under which personnel can report obligation and disbursement amounts in the Contingency Operations Reporting and Analysis Service when the amounts are different from the source data.	Closed
17	1.c	Deputy Assistant Secretary for Budget, Office of the Assistant Secretary of the Air Force (Financial Management and Comptroller)	Develop and implement standard operating procedures that include operation-specific guidance to ensure all necessary costs are consistently and accurately reported into the Contingency Operations Reporting and Analysis Service. The standard operating procedures should define the parameters of the Commanders' Resource Integration System searches used to identify Operation Inherent Resolve costs, ensuring all necessary costs are included, including contingency operation codes and appropriations.	Closed

*Status of Recommendations (cont'd)*

	Recommendation Number in Report	Recommendation Directed To	Recommendation Text	Status
18	1.d	Deputy Assistant Secretary for Budget, Office of the Assistant Secretary of the Air Force (Financial Management and Comptroller)	Develop and implement standard operating procedures that include operation-specific guidance to ensure all necessary costs are consistently and accurately reported into the Contingency Operations Reporting and Analysis Service. The standard operating procedures should ensure that the Military Personnel analyst reports actual death gratuity costs related to Operation Inherent Resolve.	Closed
19	1.e	Deputy Assistant Secretary for Budget, Office of the Assistant Secretary of the Air Force (Financial Management and Comptroller)	Develop and implement standard operating procedures that include operation-specific guidance to ensure all necessary costs are consistently and accurately reported into the Contingency Operations Reporting and Analysis Service. The standard operating procedures should ensure all personnel responsible for reviewing draft Operation Inherent Resolve data have formal change-tracking mechanisms that provide assurance that adjustments are supported, documented, tracked, approved, and corrective actions are implemented. All changes to source data should be included in this tracking mechanism.	Closed
20	2.a	Deputy Assistant Secretary for Budget, Office of the Assistant Secretary of the Air Force (Financial Management and Comptroller)	Determine the total costs underreported in FY 2015 and adjust the Contingency Operations Reporting and Analysis Service. Determine the amount of FY 2015 Syria Train and Equip costs that were allocated to Operation Enduring Freedom and Operation Freedom's Sentinel and adjust the Contingency Operations Reporting and Analysis Service to report these costs as Operation Inherent Resolve costs.	Closed
21	2.b	Deputy Assistant Secretary for Budget, Office of the Assistant Secretary of the Air Force (Financial Management and Comptroller)	Determine the total costs underreported in FY 2015 and adjust the Contingency Operations Reporting and Analysis Service. Determine the difference between the actual FY 2015 death gratuity costs and the amounts allocated within the Contingency Operations Reporting and Analysis Service for each Overseas Contingency Operation and adjust the Contingency Operations Reporting and Analysis Service to report the actual costs in each operation.	Closed
22	2.c	Deputy Assistant Secretary for Budget, Office of the Assistant Secretary of the Air Force (Financial Management and Comptroller)	Determine the total costs underreported in FY 2015 and adjust the Contingency Operations Reporting and Analysis Service. Determine the amount of FY 2015 Research, Development, Test, and Evaluation costs that were omitted and adjust the Contingency Operations Reporting and Analysis Service to report these costs.	Closed

*Status of Recommendations (cont'd)*

	Recommendation Number in Report	Recommendation Directed To	Recommendation Text	Status
23	3	Defense Finance and Accounting Service Enterprise Solutions and Standards Director, in coordination with the Office of the Deputy Assistant Secretary for Budget, Office of the Assistant Secretary of the Air Force (Financial Management and Comptroller)	Update the business rules in the Contingency Operations Reporting and Analysis Service to ensure that the contingency operation codes identified for Operation Inherent Resolve are complete and accurate, and assign responsibility for communicating any future changes.	Closed
24	4.a	Deputy Comptroller (Program/Budget), Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer	Coordinate with Congress to adjust the legal requirements related to the frequency and reporting timetable of the 2017 Cost of War reports or provide the resources necessary to review and issue the Cost of War report, prioritizing its completion to meet the submission deadline of 45 days after the reporting period.	Closed
25	4.b	Deputy Comptroller (Program/Budget), Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer	Examine options for automating the preparation of the Cost of War report's summary charts and corresponding footnotes to complete them more efficiently and enabling the report to be issued by the submission deadline.	Resolved
26	4.c	Deputy Comptroller (Program/Budget), Office of the Under Secretary of Defense (Comptroller)	Revise the FY 2016 Instructions for Reporting on the Cost of War guidance to align with Public Law 109-63, by stating that the final Cost of War report is due from the Program/Budget Office to the Office of Management and Budget, congressional offices, and the GAO no later than 45 days after the reporting period.	Closed

# Management Comments

## Office of the Deputy Secretary of Defense



OFFICE OF THE DEPUTY SECRETARY OF DEFENSE  
1010 DEFENSE PENTAGON  
WASHINGTON, DC 20301-1010

FEB 19 2019

MEMORANDUM FOR DEPARTMENT OF DEFENSE OFFICE OF INSPECTOR GENERAL

Subject: Comments on the Department of Defense Inspector General's Report, (Project No. D2018-D000RM-0164.000), "Summary Report on Systemic Weaknesses in the Cost of War Reports"

This is my response to the recommendations in the subject draft report, dated December 27, 2018. My office appreciates the Department of Defense Inspector General's (DoDIG) work on this engagement, as well as the opportunity to review and comment on the draft report.

I acknowledge receipt of the draft report and note that DoDIG requests the Office of the Deputy Secretary of Defense to provide comments in response to recommendation 5. I reviewed your recommendation and the response is attached. My point of contact is [REDACTED] who can be reached at [REDACTED] or via email at [REDACTED]

David L. Norquist  
Performing the Duties of the  
Deputy Secretary of Defense

Attachment:  
As stated



OSD017056-18/CMD001493-19

## Office of the Deputy Secretary of Defense (cont'd)

### OFFICE OF THE DEPUTY SECRETARY OF DEFENSE RESPONSE TO RECOMMENDATION 5

#### DOD OFFICE OF INSPECTOR GENERAL DRAFT REPORT, "SUMMARY REPORT ON SYSTEMIC WEAKNESSES IN THE COST OF WAR REPORTS" (Project No. D2018-D000RM-0164.000)

**Recommendation 5:** The DODIG recommends that the Deputy Secretary of Defense, in coordination with the Deputy Comptroller (Program/Budget), Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, the Defense Finance and Accounting Service Director, and each Service's Assistant Secretary for Financial Management and Comptroller, enforce the requirement for DoD Components involved in the Cost of War reporting process to submit their Cost of War data within the established timelines and issue the Cost of War report within 45 days of the end of the reporting period, or coordinate with Congress to request an adjustment to the legal requirements for the reporting timetable.

**OUSD(C) Response:** Concur. In coordination with the key Cost of War stakeholders, the requirement for DoD Components to submit Cost of War data within the established timelines and work to issue the Cost of War report within 45 days of the end of the reporting period will be enforced by the Office of the Under Secretary of Defense, (Comptroller) on behalf of the Deputy Secretary of Defense.

Section 1266 of the National Defense Authorization Act (NDAA) for FY 2018 (Public Law 115-91), amends the Cost of War (CoW) execution report submission requirement from monthly to quarterly. Although the CoW reporting actions remain largely analytical, modifying the submission frequency of the CoW report from monthly to quarterly significantly reduces the workload associated with producing the report.

As an ongoing effort, the OUSD(C) continues to engage with the Defense Finance and Accounting Service (DFAS) personnel and Service Components to streamline the report and eliminate redundancies, while preserving meaningful content in order to submit the report in a timely manner.

## Office of the Under Secretary of the Navy



THE UNDER SECRETARY OF THE NAVY  
WASHINGTON DC 20350-1000

FEB 11 2019

MEMORANDUM FOR DEPUTY ASSISTANT INSPECTOR GENERAL

SUBJECT: Discussion Draft Report on "Summary Report on Systemic Weaknesses in the Cost of War Reports"

Reference: DoDIG Discussion Draft Report Project D2018-D000RM-0164.000

In accordance with the reference, the Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) has provided comments on the recommendation pertaining to the level of detail in the Department of the Navy's accounting systems for Cost of War Reports.

I appreciate the efforts that assist the Department in improving financial reporting processes in an auditable manner.

The point of contact for this matter is [REDACTED], who may be reached by [REDACTED] or [REDACTED].

A handwritten signature in black ink, appearing to read "T. B. Modly", written over a white background.

Thomas B. Modly

Attachment:  
As stated

cc:  
Naval Inspector General  
DASN (FMO)  
DASN (FMB)

## Office of the Under Secretary of the Navy (cont'd)

The following comments are submitted in response to DoDIG Report No D2018-D000RM-0164.000 which reviewed the systemic weakness in the cost of war reports within the Department of Defense. This report identified and summarized weaknesses in the DoD's accounting for costs associated with ongoing overseas contingency operations identified in six Cost of War audit reports issued by the DoD office of Inspector General, Army Audit Agency, Naval Audit Service, and Air Force Audit Agency from 2016 to 2018. The Navy's report was DoDIG Report No D2016-D000JB-0150.000, "Navy inaccurately reported Costs for Operation Freedom's Sentinel in the Cost of War Reports." The Department of the Navy thanks the DoDIG staff for conducting the overarching review of weakness surrounding the Cost of War reports. The Department welcomes this effort as it assists in continuous process improvement for the Cost of War reports.

### Recommendation 2

**We recommend the Under Secretary of the Navy in coordination with the Assistant Secretary of the Navy for Financial Management and Comptroller and the Deputy Commandant of the Marine Corps for Programs and Resources develop and implement procedures to capture the required level of detail for war-related overseas contingency operation costs through the respective accounting system.**

The Department of the Navy (DON) concurs on the importance of documenting the required level of detail for the Cost of War report. The FMR, Volume 12, chapter 23 page 23-17, 230702, states that "each organization that supports a contingency operation shall capture related obligations and disbursements in its accounting system(s) at the lowest possible level of the organization."

As stated in DON's management comments for DoDIG Report No D2016-D000JB-0150.000, review of the Cost of War for Operation Freedom's Sentinel processes, the Navy and Marine Corps conduct worldwide deployments for both peacetime and contingency purposes. Deployments that are supporting contingency operations are funded with budgeted baseline funding, which is then supplemented with OCO funding for incremental costs due to cumulative increased operating tempo. The Navy measures the cost of this operating tempo by aggregating total operational costs and then identifying an appropriate portion of the obligations as incremental cost to be reported as Cost of War.

The Deputy Commandant of the Marine Corps for Programs and Resources conducted a thorough review of the fiscal coding structure in the Standard Accounting Budgeting and Reporting System (SABRS) which captures all OCO obligations and disbursements reported in the cost of war. From this review, the Marine Corps implemented policy to govern fiscal code usage in SABRS to establish internal control procedures for improved fidelity of OCO data recorded on financial transactions.

## Office of the Under Secretary of the Navy (cont'd)

The Navy does not have an accounting system ability to identify all individual transactions (parts, fuel, etc) as either baseline or OCO costs. The Financial Management Regulation, Volume 12, Chapter 23, page 20, 230902-N, specifically addresses incremental costs, stating that "Service specific costs for increased OPTEMPO, such as steaming costs for the Navy require individual determinations. Reported incremental costs shall reflect, as closely as possible, the actual incremental costs incurred by the unit involved using cost factors. When actual costs are not available, auditable methodology should be established and documented for capturing costs." Therefore, the DON is in compliance with the FMR for capturing the required level of detail for war-related overseas costs in the accounting systems.

## Office of the Deputy Comptroller (Program/Budget)



COMPTROLLER  
(Program/Budget)

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

JAN 30 2019

MEMORANDUM FOR DEPARTMENT OF DEFENSE OFFICE OF INSPECTOR GENERAL

SUBJECT: Comments on the Department of Defense Inspector General's Report, (Project No. D2018-D000RM-0164.000), "Summary Report on Systemic Weaknesses in the Cost of War Reports"

This is the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) response to the recommendations in the subject draft report, dated December 27, 2018. The OUSD(C) appreciates the DoDIG's work on this engagement, as well as the opportunity to review and comment on the draft report.

The OUSD(C) acknowledges receipt of the draft report and notes that DoDIG requests USD(C) to provide comments in response to recommendations 1 and 3. We reviewed your recommendations and our response is attached. My point of contact is [REDACTED] who can be reached at [REDACTED] or via email at [REDACTED].

  
Monique L. Dilworth  
Operations Director

Attachment:  
As stated



## Office of the Deputy Comptroller (Program/Budget) (cont'd)

### OFFICE OF THE UNDER SECRETARY OF DEFENSE (COMPTROLLER) (OUSD(C)) RESPONSE TO RECOMMENDATION 1

#### DOD OFFICE OF INSPECTOR GENERAL DRAFT REPORT, "SUMMARY REPORT ON SYSTEMIC WEAKNESSES IN THE COST OF WAR REPORTS" (Project No. D2018-D000RM-0164.000)

**Recommendation 1:** The DoDIG recommends that the Deputy Comptroller (Program/Budget), Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, develop and implement a review process to verify that the Services develop, review, update, and implement their Cost of War standard operating procedures for accurate and consistent reporting of war-related overseas contingency operation costs.

**OUSD(C) Response:** Concur. The OUSD(C) will require the DoD Components to review, update, and implement their Cost of War standard operating procedures for accurate and consistent reporting of war-related overseas contingency operations costs in the yearly Cost of War reporting guidance and instructions.

The Financial Management Regulation (FMR), Volume 12, Chapter 23, dated December 2017, requires each Component to develop and publish a standard operating procedure (SOP) or other supplemental guidance that will cover Component specific items for cost reporting. At a minimum, the SOP should cover: (1) data source procedures and/or methodologies used for capturing costs by cost breakdown structure category, (2) validation to ensure reported costs are accurate and a fair representation of ongoing activities on a monthly basis, and (3) variance analysis.

**Attachment 1 – OUSD(C) Response on Recommendation 1**

## Office of the Deputy Comptroller (Program/Budget) (cont'd)

### OFFICE OF THE UNDER SECRETARY OF DEFENSE (COMPTROLLER) (OUSD(C)) RESPONSE TO RECOMMENDATION 3

#### DOD OFFICE OF INSPECTOR GENERAL DRAFT REPORT, "SUMMARY REPORT ON SYSTEMIC WEAKNESSES IN THE COST OF WAR REPORTS" (Project No. D2018-D000RM-0164.000)

**Recommendation 3:** The DoDIG recommends that the Deputy Comptroller (Program/Budget), Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, in coordination with the Defense Finance and Accounting Service Director and each Service's Assistant Secretary for Financial Management and Comptroller, develop and implement a review process to verify that DoD Components update their management tools and accounting systems to properly identify and record war-related overseas contingency operation costs.

**OUSD(C) Response:** Non-concur. Per the Financial Management Regulation (FMR), Volume 12, Chapter 23, dated December 2017, it is the responsibility of the organization that incurs costs in support of the operation, directly or indirectly, to ensure that information on all costs is transmitted to the appropriate DoD Component Senior Financial Manager for forwarding to DFAS, as appropriate. Any DoD Component alerted to an impending contingency operation shall establish a unique code within their financial systems to capture costs. Additionally, each organization that supports a contingency operation shall capture related obligations and disbursements in its accounting system(s) at the lowest possible level of the organization.

Attachment 1 – OUSD(C) Response on Recommendation 3

## Office of the Deputy Commandant of the Marine Corps for Programs and Resources



DEPARTMENT OF THE NAVY  
HEADQUARTERS, UNITED STATES MARINE CORPS  
3000 MARINE CORPS PENTAGON  
WASHINGTON, DC 20350-3000

IN REPLY REFER TO:  
7500  
DMCS-A  
7 Feb 19

From: Head, Audit Coordination, Office of the Director,  
Marine Corps Staff  
To: Principal Assistant Inspector General for Auditing,  
Office of Inspector General, U.S. Department of Defense  
Subj: SUMMARY REPORT ON SYSTEMIC WEAKNESSES IN THE COST OF WAR  
REPORTS (OFFICIAL DRAFT AUDIT REPORT PROJECT NO.  
D2018-D000RM-0164.000 DATED DECEMBER 27, 2018)  
Ref: (a) DODIG Memorandum on subject dated December 27, 2018  
Encl: (1) Deputy Commandant of the Marine Corps for Programs  
and Resources (ADC, Resources) Official Responses

1. Reference (a) provided the subject audit report for review and comment.
2. Enclosure (1) provides official responses from the Headquarters, U.S. Marine Corps Deputy Commandant for Programs and Resources (Assistant Deputy Commandant, Resources).
3. We appreciate the opportunity to respond to the report.
4. For questions regarding the enclosure, I can be reached at [REDACTED] or [REDACTED].

  
CHARLES K. DOVE

Copy to:  
NAVINGEN (N14)  
IGMC  
CL  
DC, P&R (MCMICP)

## Office of the Deputy Commandant of the Marine Corps for Programs and Resources (cont'd)

UNCLASSIFIED

**OIG, DOD DRAFT REPORT DATED 27 DECEMBER 2018  
D2018-D000RM-0164.000**

**“SUMMARY REPORT ON SYSTEMIC WEAKNESSES IN THE COST OF WAR  
REPORTS”**

**U.S. MARINE CORPS COMMENTS  
TO OIG, DOD RECOMMENDATION 2**

**RECOMMENDATION 2:** OIG, DOD recommends that the Under Secretary of the Navy, in coordination with the Assistant Secretary of the Navy (Financial Management and Comptroller) and the Deputy Commandant of the Marine Corps for Programs and Resources, develop and implement procedures to capture the required level of detail of war-related overseas contingency operations (OCO) costs through the respective accounting systems.

**USMC RESPONSE:** Concur. The Deputy Commandant of the Marine Corps for Programs and Resources conducted a thorough review of the fiscal coding structure in the Standard Accounting Budgeting and Reporting System (SABRS) which captures all OCO obligations and disbursements reported in the cost of war. From this review, the USMC has implemented policy to govern fiscal code usage in SABRS to establish internal control procedures for improved fidelity of OCO data recorded on financial transactions to meet the conditions for which they are intended.

UNCLASSIFIED

Encl (1)

## Office of the Auditor General, Department of the Army



DEPARTMENT OF THE ARMY  
U.S. ARMY AUDIT AGENCY  
OFFICE OF THE AUDITOR GENERAL  
6000 6<sup>TH</sup> STREET, BUILDING 1464  
FORT BELVOIR, VA 22060-5609

SAAG-ZA

15 January 2019

MEMORANDUM FOR Principal Assistant Inspector General for Auditing, Department of Defense, Office of the Inspector General.

SUBJECT: Summary Report on Systemic Weaknesses in the Cost of War Reports (Project No. D2018-D000RM-0164.000).

1. We've reviewed the conclusions and the one recommendation (recommendation 4) addressed to U.S. Army Audit Agency in the subject report. We agree with the audit observations and findings as reported in the summary report.
2. Recommendation 4 stated that The Auditor General of the Army should include followup audits that verify the accuracy of the Cost of War data in the FY 2020 audit plan. We concur with this recommendation and will include an audit to address the accuracy of the Army's portion of the Cost of War report in our FY 2020 audit plan. Our planned completion date for including the audit in our FY 2020 audit plan is 30 September 2019. We believe that conducting future Cost of War audits will improve the accuracy and relevance of financial information that the Army provides to DoD for use by the U.S. Government Accountability Office and Congress.
3. If you have questions or need additional information, contact [REDACTED], Deputy Auditor General, Business Operations, [REDACTED].

A handwritten signature in blue ink that reads "Anne L. Richards".

ANNE L. RICHARDS  
The Auditor General

## Office of the Auditor General, Department of the Navy



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DEPARTMENT OF THE NAVY  
NAVAL AUDIT SERVICE  
1006 BEATTY PLACE SE  
WASHINGTON NAVY YARD, DC 20374-5005

7510  
17 Jan 18

MEMORANDUM FOR PRINCIPAL ASSISTANT INSPECTOR GENERAL FOR  
AUDITING, DEPARTMENT OF DEFENSE OFFICE OF  
INSPECTOR GENERAL

Subj: **DEPARTMENT OF DEFENSE OFFICE OF INSPECTOR GENERAL DRAFT  
SUMMARY REPORT ON SYSTEMIC WEAKNESSES IN THE COST OF WAR  
REPORTS (PROJECT NO. D2018-D000RM-0164.000)**

Encl: (1) Naval Audit Service Response to the Department of Defense Office of Inspector  
General Draft Summary Report on Systemic Weaknesses in the Cost of War Reports  
dated December 27, 2018 (Project No. D2018-D000RM-0164.000)

1. In response to your request, we reviewed the subject draft summary report and agree with the findings and recommendations in the report. Our response to the recommendation is in Enclosure (1).
2. We did not identify any specific content in the draft report nor in our response to the recommendation that we believe are exempt from public release under the Freedom of Information Act or other statute, regulation, or authority.
3. If you have any questions or would like additional information, please contact [REDACTED] Audit Director at [REDACTED] or [REDACTED]; or [REDACTED] Director, Policy, Oversight, and Information Technology, at [REDACTED] or [REDACTED].

  
DONJETTE L. GILMORE  
Auditor General of the Navy (Acting)

Copy to:  
AAG FMC

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## Office of the Auditor General, Department of the Navy (cont'd)

### **Naval Audit Service Response to the Department of Defense Office of Inspector General Draft Summary Report on Systemic Weaknesses in the Cost of War Reports dated December 27, 2018 (Project No. D2018-D000RM-0164.000)**

#### **Recommendation Review:**

As identified in the Department of Defense Office of Inspector General draft summary report, the following recommendation is addressed to the Auditor General, Department of the Navy:

Recommendation 4. We recommend that the Auditor General of the Army, Auditor General of the Navy, and Auditor General of the Air Force include followup audits that verify the accuracy of the Cost of War data in their FY 2020 audit plans.

#### **Naval Audit Service response to the recommendation:**

**Concur.** We created a Project Planning Worksheet that identifies a followup audit on the findings and recommendations in the Naval Audit Service audit of "Marine Corps Financial Data for Operations Freedom's Sentinel." This followup audit will be included in the Naval Audit Service FY 2020 audit plan. The draft FY 2020 audit plan will be completed by 1 October 2019.

Enclosure (1)  
Page 1 of 1

## Office of the Auditor General, Department of the Air Force



DEPARTMENT OF THE AIR FORCE  
WASHINGTON, DC

OFFICE OF THE SECRETARY

MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL

FROM: SAF/AG  
1120 Air Force Pentagon Suite 4E204  
Washington, DC 20330-1120

SUBJECT: Air Force Response to DoD Office of Inspector General Draft Report,  
"Summary Report on Systemic Weaknesses in the Cost of War Reports"  
(Project No. D2018-D000RM-0164.000)

1. This is the Department of the Air Force response to the DoDIG Draft Report, Summary Report on Systemic Weaknesses in the Cost of War Reports (Project No. D2018-D000RM-0164.000). I concur with the report as written and welcome the opportunity to include a follow-up audit to verify the accuracy of Air Force cost of war data in our FY 2020 audit plan as outlined below:

**RECOMMENDATION 4:** The DODIG recommends that that the Auditor General of the Army, Auditor General of the Navy, and Auditor General of the Air Force include follow-up audits that verify the accuracy of the Cost of War data in their FY 2020 audit plans.

**AIR FORCE RESPONSE:** Concur. The Air Force Audit Agency will include in its FY20 audit plan a follow-up audit that verifies the accuracy of Air Force cost of war data. (Estimated completion date: 30 September 2019)

2. The SAF/AG point of contact is [REDACTED], AFAA/DOO, [REDACTED], or via email at [REDACTED]

DOUGLAS M. BENNETT  
The Auditor General

cc:  
SAF/IG  
AF/DS

## Acronyms and Abbreviations

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<b>CORAS</b>	Contingency Operations Reporting and Analysis Service
<b>CoW</b>	Cost of War
<b>DFAS</b>	Defense Finance and Accounting Service
<b>GAGAS</b>	Generally Accepted Government Auditing Standards
<b>GAO</b>	Government Accountability Office
<b>OCO</b>	Overseas Contingency Operation
<b>OFS</b>	Operation Freedom's Sentinel
<b>OIG</b>	Office of Inspector General
<b>OIR</b>	Operation Inherent Resolve
<b>OMB</b>	Office of Management and Budget
<b>SECNAV</b>	Secretary of the Navy
<b>SOP</b>	Standard Operating Procedure

## Glossary

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**Appropriation.** Congressionally-approved funds designated for a specific use during a specific period of time.

**Budget Activity.** Distinguishable lines of work performed by DoD Components.

**Budget Line Item.** Individual accounts available for disbursement.

**Closed Recommendation.** The DoD OIG or Service audit agency verified that the agreed upon corrective actions were implemented.

**Disbursement.** Amount paid, by cash or cash equivalent, to satisfy a corresponding obligation.

**DoD Component.** Organizational entities within the DoD such as the Office of the Secretary of Defense, the Military Departments, and Defense agencies.

**Incremental Cost.** Costs above and beyond baseline training, operations, and personnel costs incurred to support the contingency operation.

**Obligation.** Amount representing orders placed, contracts awarded, and services received that require payment.

**Resolved Recommendation.** Management has agreed to implement the recommendations or has proposed actions that will address the underlying finding that generated the recommendation.

**Systemic.** Same or similar issue that occurs in two or more DoD Components.

**Unresolved Recommendation.** Management has not agreed to implement the recommendation or has not proposed actions that will address the recommendations.



# **Whistleblower Protection**

## **U.S. DEPARTMENT OF DEFENSE**

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703.604.8324

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[public.affairs@dodig.mil](mailto:public.affairs@dodig.mil); 703.604.8324

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