

# Inspector General

United States  
Department of Defense



Controls Over Reporting Transportation Costs  
in Support of the Global War on Terror

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## Acronyms and Abbreviations

ARCENT	U.S. Army Central
DFAS	Defense Finance and Accounting Service
DLA	Defense Logistics Agency
GWOT	Global War on Terror
OMA	Operation and Maintenance, Army
U.S.C.	United States Code
USD(C)/DoD CFO	Under Secretary of Defense (Comptroller)/DoD Chief Financial Officer
USTRANSCOM	U.S. Transportation Command



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
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ARLINGTON, VIRGINIA 22202-4704

March 12, 2009

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE  
(COMPTROLLER)/DOD CHIEF FINANCIAL OFFICER  
ASSISTANT SECRETARY OF THE ARMY (FINANCIAL  
MANAGEMENT AND COMPTROLLER)  
COMMANDER, U.S. TRANSPORTATION COMMAND  
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING  
SERVICE  
AUDITOR GENERAL, U.S. ARMY AUDIT AGENCY

SUBJECT: Controls Over Reporting Transportation Costs in Support of the Global War  
on Terror (Report No. D-2009-061)

We are providing this report for review and comment. We considered comments from the Administrative Assistant to the Secretary of the Army; Commander, U.S. Army Central; and Director, Management and Control, Army Budget Office when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The comments from the Administrative Assistant to the Secretary of the Army and the Army Budget Office were responsive. However, the comments from the Commander, U.S. Army Central were not responsive. Therefore, we request additional comments from the Commander, U.S. Army Central on Recommendation 2. by April 13, 2009.

Please provide comments that conform to the requirements of DoD Directive 7650.3. If possible, send your comments in electronic format (Adobe Acrobat file only) to [AUDDBO@dodig.mil](mailto:AUDDBO@dodig.mil). Copies of your comments must have the actual signature of the authorizing official for your organization. We are unable to 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 courtesies extended to the staff. Please direct questions to me at (703) 601-5868 (DSN 664-5868). If you desire, we will provide a formal briefing on the results.

*Patricia A. Marsh*

Patricia A. Marsh, CPA  
Assistant Inspector General  
Defense Business Operations





# Results in Brief: Controls Over Reporting Transportation Costs in Support of the Global War on Terror

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## What We Did

We evaluated the effectiveness of controls over reporting transportation costs related to the Global War on Terror (GWOT). Specifically, we reviewed the Army's process for recording, classifying, and reporting FY 2007 obligations for transportation services included in the Supplement and Cost of War Execution Report (Cost of War report). The audit focused on the transportation obligations reported by Operating Agency 22 (part of the Army Resources and Programs Agency, in the Office of the Administrative Assistant to the Secretary of the Army); U.S. Army Central; and the Army Budget Office. In total, they reported \$5 billion of the \$5.2 billion in GWOT transportation obligations that the Army incurred in FY 2007.

## What We Found

Army organizations did not accurately record and report FY 2007 transportation costs incurred in support of GWOT. Specifically,

- Operating Agency 22 exceeded its FY 2007 Operation and Maintenance, Army appropriation funding by \$100.7 million, potentially violating section 1517(a)(2), title 31, United States Code (Antideficiency Act); and
- the Army's Cost of War report understated obligations incurred for transportation services by about \$147.5 million and included about \$1.1 billion of transportation in the wrong Cost Breakdown Structure Subcategory.

As a result, the Army did not provide the Under Secretary of Defense (Comptroller)/DoD Chief

Financial Officer and Congress an accurate report of the appropriated funds used for GWOT transportation services.

## What We Recommend

We recommend that the Executive Director, Army Resources and Programs Agency:

- develop procedures for computing funding for unbilled shipments,
- report a potential Antideficiency Act violation, and
- implement procedures to identify funding shortfalls and process requests to reprogram funds in a timely manner.

We recommend that the Commander, U.S. Army Central develop and implement standard operating procedures for computing and recording estimated obligation amounts. We recommend that the Director, Army Budget Office require the Military Pay Division to use the same accounting crosswalk developed by the Budget Integration and Evaluation Division to validate and report transportation cost data for the Cost of War report.

## Management Comments and Our Response

The Administrative Assistant to the Secretary of the Army and the Director, Management and Control, Army Budget Office agreed with the recommendations. The Commander, U.S. Army Central disagreed with Recommendation 2. The full text of these comments appears in the Management Comments section of the report. We request additional comments from the Commander, U.S. Army Central. Please see the recommendations table on the back of this page.

## Recommendations Table

<b>Entity</b>	<b>Recommendations Requiring Comment</b>	<b>No Additional Comments Required</b>
Executive Director, Army Resources and Programs Agency		1.a., 1.b., and 1.c.
Commander, U.S. Army Central	2.	
Director, Army Budget Office		3.

**Please provide comments by April 13, 2009.**

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# Introduction

## Objective

The objective of this audit was to evaluate the effectiveness of controls over reporting transportation costs related to the Global War on Terror. Specifically, we reviewed the Army's process for recording, classifying, and reporting FY 2007 obligations for transportation services included in the "Supplemental and Cost of War Execution Report" (Cost of War report). See Appendix A for a discussion of the scope and methodology and a review of internal controls. See Appendix B for prior coverage related to the objective.

## Background

Following the terrorist attacks of September 11, 2001, the United States initiated military operations to combat terrorism in Iraq, Afghanistan, and the United States. Operation Iraqi Freedom and Operation Enduring Freedom are military operations related to Iraq and Afghanistan, respectively. Operation Noble Eagle is the effort to defend the United States from further terrorist attacks. These and other operations worldwide are collectively referred to as the Global War on Terror (GWOT). The Under Secretary of Defense (Comptroller)/DoD Chief Financial Officer (USD[C]/DoD CFO) considers GWOT a contingency operation.

GWOT transportation support consists mainly of:

- moving cargo and personnel of tactical units deploying and redeploying in support of Operation Iraqi Freedom and Operation Enduring Freedom;
- shipping supplies and equipment, including subsistence and supplies managed by the Defense Logistics Agency (DLA), from the first point of Government acceptance or the storage point to the Army user (commonly referred to as second destination transportation); and
- transporting subsistence within the GWOT operating theaters.

The Office of the Deputy Chief of Staff for Logistics (Army G-4) is responsible for developing funding requirements for the Army second destination transportation program and for program management oversight.

## ***DoD Supplemental and Cost of War Report***

DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 12, chapter 23, "Contingency Operations," September 2007, requires that the Defense Finance and Accounting Service (DFAS) prepare and issue a monthly status report on the amount DoD obligates in support of contingency operations. DFAS uses the Business Enterprise Information System to compile cost data submitted by the DoD Components and to produce the Cost of War report. The Cost of War report consolidates obligation data submitted by the DoD Components about various GWOT operations and appropriations. The report shows obligations incurred during the current month and

year-to-date. For the Operation and Maintenance, Army (OMA) appropriation, the report will not show obligation adjustments made to a prior year appropriation, and no corrections are made to reports once they are finalized. DFAS provides the monthly Cost of War report to the Office of the USD(C)/DoD CFO, which in turn provides the report to Congress.<sup>1</sup>

DoD Regulation 7000.14-R, chapter 23, describes a standard cost structure, referred to as the Contingency Cost Breakdown Structure, for summarizing and reporting contingency operation costs by categories. The cost categories facilitate the comparison of budget estimates to actual costs incurred in executing GWOT operations. See Appendix C for a description of the seven major cost categories and the six transportation cost subcategories included in the Cost Breakdown Structure. The cost categories contained in the Cost Breakdown Structure are the same as those used in the budget submissions. DoD Components are required to develop measures for capturing actual costs from accounting systems. If actual costs are not available, the DoD Components should establish and document an auditable methodology for capturing data.

### ***FY 2007 GWOT Reported Costs***

For FY 2007, DoD reported obligations totaling \$139.8 billion in support of GWOT, including \$8.7 billion for transportation. The Army reported obligations totaling \$98 billion, including \$5.2 billion for transportation services paid by the OMA appropriation.<sup>2</sup> The table shows the dollar value for DoD and Army GWOT transportation obligation amounts reported on the Cost of War report as of September 30, 2007, by Subcategory.

**GWOT Transportation Obligations as of September 30, 2007**  
(in thousands)

Cost Breakdown Structure Subcategories	DoD	Army
<b>4.1 Airlift</b>	\$3,195,655	\$853,541
<b>4.2 Sealift</b>	782,872	665,673
<b>4.3 Ready Reserve Force/Fast Sealift Ship</b>	5,000	0
<b>4.4 Port Handling and Inland Transportation</b>	739,638	691,807
<b>4.5 Other Transportation</b>	957,235	17,536
<b>4.6 Second Destination Transportation</b>	2,990,206	2,950,790
<b>Total</b>	<b>\$8,670,606</b>	<b>\$5,179,347</b>

<sup>1</sup> Effective October 2008, DoD replaced the Cost of War report with a Contingency Operations Status of Funds report. The new report will provide DFAS with the ability to reflect obligation adjustments made to a specific appropriation.

<sup>2</sup> The Army has reported that all costs for transportation services are not included in the transportation cost category (Cost Breakdown Structure Category 4) on the Cost of War reports. Some transportation costs are embedded in the contract price for materiel and other services and are included in other Cost Breakdown Structure categories on the Cost of War reports.

## ***Army Transportation Costs***

The Office of the Assistant Secretary of the Army (Financial Management and Comptroller), Army Budget Office, Budget Integration and Evaluation Division is responsible for gathering, analyzing, and reporting GWOT costs incurred by the Army to DFAS. The division used the Operational Data Store to identify many GWOT obligations and disbursements reported by Army organizations, including all of those related to transportation. Operational Data Store is a DFAS system used to process information among entitlement, disbursing, and accounting systems. The Budget Integration and Evaluation Division developed an automated program to crosswalk data obtained from the Operational Data Store to the appropriate Cost Breakdown Structure category on the Cost of War report. Within the Army, three organizations reported incurring \$5 billion of the total \$5.2 billion in GWOT transportation obligations for FY 2007.

The Office of Administrative Assistant to the Secretary of the Army, Executive Director, Army Resources and Programs Agency is responsible for Operating Agency 22. Operating Agency 22 provides resource management support for more than 200 organizations that perform a variety of readiness and operations support functions for Headquarters, Department of the Army. This includes responsibility for programming, budgeting, and funding second destination transportation. Within Operating Agency 22, Resource Services Indianapolis<sup>3</sup> is responsible for monitoring and obligating funds based on actual or estimated bills received from the U.S. Transportation Command (USTRANSCOM) or commercial carriers paid through the U.S. Bank PowerTrack® System. For FY 2007, Operating Agency 22 reported obligating \$2.6 billion for transportation services related to GWOT support.

U.S. Army Central (ARCENT) provides command and control for all Army forces supporting GWOT operations. For FY 2007, ARCENT obligated OMA appropriation funds totaling \$19.8 billion for GWOT combat and support operations. This included \$1.3 billion for “overocean”<sup>4</sup> and “within theater” transportation of tactical units’ equipment and personnel.

The Army Budget Office, Military Personnel Division centrally manages the Military Personnel, Army appropriation that funds soldiers’ pay and allowances and other related personnel costs, including subsistence. In addition, the Military Personnel Division received OMA appropriation funds to reimburse DLA for transporting subsistence within the Iraq and Afghanistan operating theaters. For FY 2007, the Military Personnel Division incurred obligations totaling \$629.2 million to reimburse DLA for transporting subsistence within the GWOT operating theaters.

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<sup>3</sup> The Army transferred responsibility for monitoring and obligating second destination funds within Operating Agency 22 from Resource Services Indianapolis to Resource Services Washington in May 2008.

<sup>4</sup> Overocean transportation is the movement of goods from a point of origin in the Continental U.S. to a specified point overseas.

## **Criteria**

### ***Recording Obligations***

DoD Regulation 7000.14-R, volume 3, chapter 15, “Receipt and Use of Budgetary Resources - Execution Level,” states that obligations incurred are amounts of orders placed, contracts awarded, services received, and similar transactions during an accounting period that will require payment. Chapter 8, “Standards for Recording and Reviewing Commitments and Obligations,” prescribes the basis for determining the amount to record and the accounting period in which to record the obligations. DoD Components are to obligate funds at the time they requisition items. The office that incurs an obligation is responsible for providing the accounting office with documentary evidence of the transaction. If personnel do not know the actual obligation amount at the time they record it, they should thoroughly analyze the transaction and provide their best estimate.

### ***Fiscal Laws and Regulations***

Federal agencies are required to spend appropriations within the time and amount established by Congress. Under section 1502(a), title 31, United States Code (31 U.S.C. 1502[a]), commonly referred to as the “Bona Fide Needs Rule,” an appropriation is available to pay expenses incurred during the time that the appropriation is available for obligation. According to 31 U.S.C. 1514(a), the head of each Executive agency prescribes by regulation a system of administrative control to restrict obligations or expenditures from each appropriation to the amount of the apportionments or reapportionments of the appropriation. In addition, 31 U.S.C. 1517(a)(2), part of the law commonly referred to as the Antideficiency Act, states that Government officials are prohibited from making obligations or expenditures in excess of the amount permitted by the agency regulation prescribed under 31 U.S.C. 1514(a). Furthermore, 31 U.S.C. 1517(b) requires the agency head to immediately report violations to the President and Congress and to include all relevant facts and action taken.

DoD Regulation 7000.14-R, volume 14, “Administrative Control of Funds and Antideficiency Act Violations,” establishes policy and procedures for administrative control of funds. Chapter 2, “Violations of the Antideficiency Act,” requires that an agency report a potential violation if an administrative subdivision of funds is exceeded. Failure to record a valid obligation as of the date it was incurred does not avoid the incurrence of a potential violation. Chapter 3, “Preliminary Reviews of Potential Violations,” requires that the individual detecting a possible Antideficiency Act violation report it within 10 working days. For the Army, potential violations are reported to the Office of the Assistant Secretary of the Army (Financial Management and Comptroller), which submits a report to the USD(C)/DoD CFO. DoD Components should initiate a preliminary review of the potential violation usually within 90 days. DFAS Indianapolis Regulation 37-1, “Finance and Accounting Policy Implementation,” May 2008, provides guidance on budgetary and proprietary accounting, fund control, and financial reporting in support of customers serviced by DFAS Indianapolis. Chapter 4, “Administrative

Control of Appropriations and Financing of Requirements,” states that an over obligation of funds caused by inaccurate estimates or failure to reserve enough funds for contingent liabilities is an Antideficiency Act violation.

## **Review of Internal Controls**

We identified material internal control weaknesses for the Office of the Administrative Assistant to the Secretary of the Army as defined by DoD Instruction 5010.40, “Managers’ Internal Control (MIC) Program Procedures,” January 4, 2006. Operating Agency 22 did not establish the necessary internal controls to ensure that GWOT transportation costs were accurately recorded and reported and that reprogramming requests were approved before funds were transferred. As a result, Operating Agency 22 understated transportation costs on the year-end FY 2007 Costs of War report by \$100.7 million and may have violated 31 U.S.C. 1517. In addition, Operating Agency 22 did not comply with the funds reprogramming request requirements in DoD Regulation 7000.14-R volume 3, chapter 6, “Reprogramming of DoD Appropriated Funds,” when issuing FY 2007 OMA appropriation funds. Implementing Recommendations 1.a. and 1.c. will improve internal controls in Operating Agency 22. We identified internal control weaknesses for ARCENT and Army Budget Office. ARCENT did not have the necessary internal controls to ensure that it computed and recorded an accurate obligation estimate for unbilled transportation costs at fiscal year’s end. Implementing Recommendation 2. will improve ARCENT internal controls. Army Budget Office did not have the necessary internal controls to ensure that it reported transportation costs under the correct Cost Breakdown Structure category on the Cost of War report. Implementing Recommendation 3. will improve Army Budget Office internal controls. We will provide a copy of our report to the senior Army official responsible for internal controls.



# Finding. Recording Transportation Obligations

Army organizations did not accurately record and report FY 2007 transportation costs incurred in support of Global War on Terror (GWOT). Specifically:

- Operating Agency 22 exceeded its FY 2007 Operation and Maintenance, Army appropriation approved funding by \$100.7 million, potentially violating 31 U.S.C. 1517 (a)(2); and
- the Army's FY 2007 Cost of War report as of September 30, 2007, understated obligations incurred for transportation services by about \$147.5 million and included about \$1.1 billion of transportation costs under the wrong Cost Breakdown Structure category.

As a result, the Under Secretary of Defense (Comptroller)/DoD Chief Financial Officer (USD[C]/DoD CFO), Congress, and other report users were not provided a detailed accounting of GWOT appropriated funds used for transportation services. Operating Agency 22, in coordination with the Office of the Deputy Chief of Staff for Logistics (Army G-4), should develop procedures for estimating the funding required by the Defense Logistics Agency (DLA) for transporting subsistence and supplies overseas, and report a potential Antideficiency Act violation as required by DoD Regulation 7000.14-R, volume 14, chapter 3. Operating Agency 22 should also ensure that funding shortfalls are identified promptly and that requests for reprogramming authority are approved before issuing funds. U.S. Army Central (ARCENT) should develop standard operating procedures for estimating and recording obligations for transportation costs incurred, but not yet billed, as of fiscal year's end. In addition, Army Budget Office, Military Pay Division should use the Army's accounting costs crosswalk to validate the transportation obligations included in its submission for the Cost of War report.

## Operating Agency 22

Operating Agency 22 understated FY 2007 OMA appropriation obligations as of September 30, 2007, for second destination transportation services by \$100.7 million on the Cost of War report. Resource Services Indianapolis did not record an accurate estimated obligation for the transportation costs because it lacked current information on second destination transportation shipments of DLA-managed items. As of September 30, 2007, Operating Agency 22 had incurred obligations totaling \$100.7 million more than the \$9.6 billion in OMA appropriation funds approved for FY 2007. As a result, Operating Agency 22 may have incurred an Antideficiency Act violation reportable under 31 U.S.C. 1517(b). In addition, Operating Agency 22 issued Resource Services Indianapolis funding authority appropriated as Budget Activity<sup>5</sup> 01,

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<sup>5</sup> Budget Activities are categories within each appropriation that identify the purpose or types of activity financed by the appropriation. Each Budget Activity is further divided into Subactivity Groups.

“Operating Forces,” rather than Budget Activity 04, “Administrative and Service-wide Activities,” for the purpose of funding second destination transportation without the approved reprogramming authority.

### ***Transportation Obligation Procedures for DLA Shipments***

Before FY 2007, Resource Services Indianapolis issued DLA Military Interdepartmental Purchase Requests to provide monthly funding for the estimated port handling and overocean transportation costs chargeable to the Army. The Military Interdepartmental Purchase Requests provided supporting documentation for recording monthly obligation estimates in the Army accounting records before DLA billed for the transportation services. U.S. Transportation Command (USTRANSCOM) billed DLA monthly for the total transportation charges based on bills received from its shipping activities. DLA then computed the transportation costs chargeable to the Army and other DoD Components and prepared separate bills for the Army and other DoD Components. When preparing the Standard Form 1080, “Voucher for Transfers Between Appropriations and/or Funds,” DLA cited the fiscal year’s funds as of the billing date.

Starting in FY 2007, USTRANSCOM began billing the DoD Components directly for the transportation costs associated with the DLA “forward stocked” subsistence and supplies.<sup>6</sup> Resource Services Indianapolis calculated the monthly funding estimates for transportation services on the Military Interdepartmental Purchase Requests based on historical obligation and disbursement data. The Military Interdepartmental Purchase Requests provided supporting documentation for recording monthly obligation estimates in the accounting records before USTRANSCOM provided the transportation services. USTRANSCOM received monthly billings from its subordinate shipping activities and sent Standard Forms 1080, citing the accounting classification on the Military Interdepartmental Purchase Request, to Resource Services Indianapolis. Resource Services Indianapolis then certified and processed the vouchers for payment, reducing the monthly estimated obligation amount previously recorded based on the Military Interdepartmental Purchase Request. USTRANSCOM used different billing procedures than DLA used. USTRANSCOM billed for transportation services based on the shipment date rather than the date billed as DLA had done.

### ***Accounting for FY 2007 Transportation Costs of DLA Shipments***

Resource Services Indianapolis significantly underestimated obligations at the end of FY 2007 for unbilled second destination transportation costs for DLA-managed subsistence and supplies. As of September 30, 2007, Resource Services Indianapolis provided USTRANSCOM about \$778 million in FY 2007 OMA appropriation funds on Military Interdepartmental Purchase Requests. Based on the Military Interdepartmental Purchase Requests, the Army obligated the \$778 million in FY 2007 OMA appropriation

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<sup>6</sup> DLA “forward stocked” or pre-positioned subsistence and supplies are located at storage sites in the operating theaters. DLA owned and managed the items until requisitioned and issued for later issue to other DoD Components. The DoD Components paid the second destination transportation costs based on the percentage of subsistence and supplies requisitioned by each DoD Component.

funds. Because of the time delay between the shipment date and the date billed by USTRANSCOM, the historical obligation and disbursement information was no longer an accurate basis for estimating the current month's transportation services chargeable to the Army. As a result, Resource Services Indianapolis did not include sufficient funding on the final FY 2007 Military Interdepartmental Purchase Request for transportation costs incurred, but not billed by USTRANSCOM, as of September 30, 2007. In October 2007, USTRANSCOM submitted a Standard Form 1080 for second destination transportation charges totaling \$27.7 million that cited the Army's FY 2007 OMA appropriation funds for transportation services provided during FY 2007. Because the billed amount exceeded available FY 2007 funds, Resource Services Indianapolis charged the transportation costs to FY 2008 OMA appropriation funds. Resource Services Indianapolis also instructed USTRANSCOM to cite FY 2008 funds on the Standard Form 1080 vouchers submitted for any remaining FY 2007 transportation charges. As of May 7, 2008, Resource Services Indianapolis disbursed \$100.2 million of FY 2008 OMA appropriation funds for transportation costs incurred in FY 2007.

From March through July 2008, we continued to monitor and ask about the status of Operating Agency 22's FY 2007 OMA appropriation funds. By June 30, 2008, Army operating agencies had reported de-obligating \$544.1 million of FY 2007 OMA appropriated funds. On July 15, 2008, the Army Budget Office used a portion of the de-obligated funds to issue a Funding Authorization Document transferring an additional \$100.2 million of FY 2007 OMA appropriation funds to Operating Agency 22, increasing its total FY 2007 funding to \$9.7 billion. In addition, Operating Agency 22 had de-obligated \$0.5 million of FY 2007 OMA appropriation funds after September 30, 2007, and these funds were available to expend for obligations incurred in FY 2007 for the USTRANSCOM transportation charges. On July 18, 2008, Operating Agency 22 transferred the \$100.7 million of USTRANSCOM transportation charges that had been erroneously applied to the FY 2008 OMA appropriation to FY 2007 OMA appropriation.

### ***Potential Antideficiency Act Violation***

Operating Agency 22 potentially violated 31 U.S.C. 1517(a)(2) by incurring as of September 30, 2007, \$100.7 million in obligations in the FY 2007 OMA appropriation that exceeded the amount authorized by the Funding Authorization Document, a formal administrative subdivision of an apportionment or reapportionment of an appropriation as defined under 31 U.S.C. 1514(a). Resource Services Indianapolis needed better procedures for computing the funding required for DLA shipments of subsistence and supplies. Those written procedures should require the accurate recording of obligations regardless of whether the funding was available at either Resource Services Indianapolis or Operating Agency 22. Operating Agency 22 should report a potential violation as prescribed in DoD Regulation 7000.14-R, volume 14, chapter 3. In addition, Operating Agency 22 potentially violated 31 U.S.C. 1502(a) by obligating and expending \$100.7 million of FY 2008 OMA appropriation funds for transportation costs incurred in FY 2007. However, Operating Agency 22 corrected this potential violation on July 18, 2008, by transferring the \$100.7 million erroneously charged to the FY 2008 OMA appropriation to the FY 2007 OMA appropriation.

Army Budget Office issued Operating Agency 22 a Funding Authorization Document authorizing FY 2007 OMA appropriation funds totaling \$9.6 billion. The Funding Authorization Document stated that authorizing or incurring obligations in excess of the cumulative allocation amount is a violation of 31 U.S.C. 1517 and is reportable under DFAS Indianapolis Regulation 37-1. Operating Agency 22 issued Resource Services Indianapolis a \$2.6 million funding authorization target in the FY 2007 OMA appropriation. Exceeding a funding authorization target is not an Antideficiency Act violation. However, Resource Services Indianapolis personnel could be responsible for an Antideficiency Act violation if the governing formal subdivision of funds is exceeded.

As of September 30, 2007, accounting reports showed that Resource Services Indianapolis had obligated 100 percent of its \$2.6 million FY 2007 OMA appropriation funding target, and Operating Agency 22 had obligated 100 percent of its \$9.6 billion FY 2007 OMA appropriation funding authorization. By understating second destination transportation obligations by \$100.7 million as of September 30, 2007, Resource Services Indianapolis exceeded its \$2.6 billion FY 2007 funding target and Operating Agency 22 exceeded its overall \$9.6 billion FY 2007 OMA appropriation funding authority, potentially violating 31 U.S.C. 1517(a)(2). By transferring the \$100.7 million erroneously charged to the FY 2008 OMA appropriation to the FY 2007 OMA appropriation, Operating Agency 22 corrected a potential violation of 31 U.S.C. 1502(a). However, the Funding Authorization Document issued to Operating Agency 22 was a formal administrative subdivision of an apportionment or reapportionment of an appropriation as defined under 31 U.S.C. 1514(a). Exceeding the formal administrative subdivision is a potential violation of 31 U.S.C. 1517(a)(2).

The Executive Director, Army Resources and Programs Agency; in coordination with the Office of the Deputy Assistant Secretary of Army for Logistics (Army G-4) and with assistance from DLA and USTRANSCOM; needs to develop written procedures for computing the funding required for DLA shipments of subsistence and supplies. These procedures should also ensure that Operating Agency 22 includes sufficient funds on the final fiscal year-end Military Interdepartmental Purchase Request for the estimated transportation costs that Army incurred, but USTRANSCOM had not yet billed. In addition, Operating Agency 22 should report a potential Antideficiency Act violation in the FY 2007 OMA appropriation as prescribed in DoD Regulation 7000.14-R, volume 14, chapter 3.

### ***Reprogramming***

Operating Agency 22 did not comply with requirements of DoD Regulation 7000.14-R volume 3, chapter 6, when issuing FY 2007 OMA appropriation funds, Budget Activity 01 to Resource Services Indianapolis for the purpose of funding second destination transportation. Chapter 6 establishes the policies and provides guidance for requesting reprogramming authority to transfer funds between appropriations or subdivisions within an appropriation. DoD Components are required to submit a reprogramming action request to the Office of the USD(C)/DoD CFO for review and approval before submission to the congressional committees. Chapter 6 contains dollar

thresholds for reprogramming actions requiring written congressional committee approval, which has been agreed on by the committees and DoD, including increases of \$15 million or more in an OMA appropriation Budget Activity.

Of the \$2.6 billion in funding authority that Operating Agency 22 issued Resource Services Indianapolis for FY 2007, \$1.9 billion was designated as Subactivity Group 421, "Service-wide Transportation."<sup>7</sup> Subactivity Group 421 is a part of Budget Activity 04, "Administration and Service-wide Activities." These funds were budgeted and appropriated for the purpose of financing Service-wide second destination transportation. Because of a shortfall in available Subactivity Group 421 funds to meet GWOT second destination transportation requirements, Operating Agency 22 issued Resource Services Indianapolis an additional \$663 million designated as Subactivity Group 135, "Additional Activities," which is a part of Budget Activity 01, "Operating Forces." These funds were budgeted and appropriated for the purpose of financing transportation for deploying, sustaining, and redeploying unit's equipment and supplies. The FY 2007 Supplemental Budget showed \$2.4 billion for second destination transportation in Subactivity Group 421, Budget Activity 04. Because Subactivity Group 421, Budget Activity 04 funds are designated specifically for Service-wide second destination transportation, Operating Agency 22 violated the requirements of DoD Regulation 7000.14-R volume 3, chapter 6, when it issued \$663 million of Budget Activity 01, Subactivity Group 135 funds to Resource Services Indianapolis for financing Service-wide second destination transportation without prior reprogramming approval from Congress.

Issuing and obligating the \$663 million of Subactivity Group 135 funds for second destination transportation also caused the Army to report obligations under the wrong Cost Breakdown Structure code on the Cost of War report. The accounting crosswalk used by the Army Budget Office, Budget Integration and Evaluation Division to transfer cost data from the Operational Data Store to the Cost of War report uses the Subactivity Group and Element of Resource<sup>8</sup> as factors to determine the Cost Breakdown Structure category. If Subactivity Group 421 funds are used, costs are reported under Subcategory 4.6, second destination transportation. If Subactivity Group 135 funds are used, the Element of Resource code will determine under which Cost Breakdown Structure code the costs will be reported. The Cost of War report reported the \$663 million in transportation costs in a subcategory other than Subcategory 4.6. Operating Agency 22 should implement procedures to ensure that funding shortfalls are identified promptly and reprogramming requests are submitted and approved before OMA appropriation funds are transferred or used for purposes other than those for which the funds were intended.

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<sup>7</sup> Funding Authorization Documents issued by Army Budget Office identify funds by the Subactivity Group. The amounts specified are taken from the OMA appropriation budget authorized by the congressional committees. The Subactivity Group amounts allocated by the Army Budget Office are not formal administrative subdivisions of funds under 31 U.S.C. 1514(a). However, the Funding Authorization Documents did state that exceeding the cumulative amount allocated is a reportable violation of 31 U.S.C. 1517.

<sup>8</sup> The Element of Resource is a four-digit code that identifies the type or resource employed or consumed.

## ARCENT

ARCENT did not accurately report FY 2007 transportation costs incurred in support of GWOT. ARCENT received and obligated \$19.4 billion in FY 2007 OMA funds to support GWOT operations. Of this amount, ARCENT obligated \$944.6 million for transporting equipment, supplies, and personnel. Generally, ARCENT obligated funds based on bills received from the transportation providers. Because of normal delays in receiving transportation bills, ARCENT did not process some bills for transportation services requested near fiscal year's end until the following fiscal year. Therefore, ARCENT recorded an estimated obligation. However, ARCENT did not record an accurate obligation estimate for unbilled transportation costs at the end of FY 2007.

ARCENT did not have written procedures for estimating transportation costs incurred, but not yet billed, as of September 30, 2007. In addition, ARCENT personnel stated that they lacked current information on actual FY 2007 OMA appropriation obligations for supply transactions because problems in the Fund Control Module System<sup>9</sup> resulted in duplicate obligations for supply requisitions. Because of the lack of written procedures and known system problems, ARCENT personnel did not attempt to compute and record an accurate obligation estimate for unbilled transportation costs. Rather, ARCENT personnel obligated the total remaining FY 2007 OMA appropriation funds and anticipated that, after de-obligating the duplicate obligations for supply transactions, sufficient funds would be available to obligate the FY 2007 unbilled transportation costs. As of May 2008, ARCENT personnel researched and identified duplicate obligations recorded in FY 2007 totaling more than \$170 million. However, after correcting the duplicate obligations, ARCENT personnel still had to record an obligation for the transportation costs chargeable to FY 2007. By May 2008, ARCENT personnel had obligated an additional \$46.8 million of FY 2007 OMA appropriation funds for FY 2007 transportation bills received after September 30, 2007. As a result, the September 30, 2007, Cost of War report understated FY 2007 transportation costs by at least \$46.8 million.

ARCENT should develop standard operating procedures that outline the process for estimating and recording the obligation amount for transportation costs incurred, but not yet billed, as of fiscal year's end. To address the problems with the Fund Control Module System, the Office of the Assistant Secretary of the Army (Financial Management and Comptroller) requested that the U.S. Army Audit Agency evaluate the process for obligating funds for supply transactions using the Fund Control Module System. The U.S. Army Audit Agency issued its report in September 2008.

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<sup>9</sup>The Fund Control Module System is a business process improvement to simplify the obligation process and to ensure that the Standard Army Retail Supply System and the Standard Finance System have the same information regarding funds available for obligation. ARCENT implemented the Fund Control Module System in July 2007.

## **Army Budget Office**

The Army Budget Office, Military Pay Division reported costs for within theater transportation under the wrong Cost Breakdown Structure category on the Cost of War report. For FY 2007, the Army reimbursed DLA \$629.2 million for transporting within theater subsistence to Army organizations using funds appropriated under Subactivity Group 135, "Additional Activities." The accounting crosswalk program developed by the Army Budget Office, Budget Integration and Evaluation Division to transfer cost data taken from the Operational Data Store to the Cost of War report aligned transportation costs funded by Subactivity Group 135 primarily into two Cost Breakdown Structure Subcategories: 4.4 Port Handling and Inland Transportation and 4.5 Other Transportation. The crosswalk identified all transportations costs funded using Subactivity Group 421, "Service-wide Transportation," to Subcategory 4.6 Second Destination Transportation.

During FY 2007, when validating the cost data received from the Budget Integration and Evaluation Division, the Military Pay Division used an incomplete crosswalk reference guide and changed \$629.2 million of transportation costs from Subcategories 4.1 through 4.5 to Subcategory 4.6. The Budget Integration and Evaluation Division identified some of the changes made by the Military Pay Division and reclassified \$229 million as Subcategory 4.4 on the Cost of War report submitted to DFAS Indianapolis. However, the Budget Integration and Evaluation Division did not find and correct all of the changes made by the Military Pay Division. As a result, the Cost of War report inaccurately reported \$400.2 million of within theater transportation costs under Cost Breakdown Structure Subcategory 4.6. Because the Military Pay Division used Subactivity Group 135 rather than Subactivity Group 421 funds to reimburse DLA for within theater transportation costs, the \$400.2 million should not have been classified and reported under Subcategory 4.6. In addition, ARCENT used Subactivity Group 135 for within theater transportation of equipment and supplies and reported the costs under Subcategory 4.4. To ensure consistency in the reporting of transportation costs on the Cost of War report, the Military Pay Division should use the Army accounting crosswalk developed by the Budget Integration and Evaluation Division to validate the cost data included on its Cost of War submission.

## **Conclusion**

The Army should improve its controls and procedures for reporting transportation costs incurred for GWOT support. Although the Army Budget Office, Budget Integration and Evaluation Division had implemented standard procedures for recording, classifying, and reporting GWOT transportation costs, some reporting organizations did not report all transportation costs in the fiscal year's end Cost of War report submission or included costs under the wrong Cost Breakdown Structure category. Operating Agency 22 neither recorded estimated obligations to cover the \$100.7 million in second destination transportation costs that the Army incurred as of September 30, 2007, nor requested reprogramming authority through the Army Budget Office before using Budget Activity 01 designated funds for Service-wide second destination transportation costs. The Executive Director, Army Resources and Programs Agency should report a potential Antideficiency Act violation under 31 U.S.C. 1517(b) in the FY 2007 OMA

appropriation and develop procedures to ensure that reprogramming requests are submitted and approved before funds are used for purposes other than those for which the funds were intended. ARCENT under reported FY 2007 transportation costs by about \$46.8 million as of September 30, 2007, and should develop procedures for estimating and reporting transportation costs incurred, but not billed, at fiscal year's end. In total, the Army's FY 2007 Cost of War report as of September 30, 2007, understated obligations by \$147.5 million and included about \$1.1 billion of transportation costs under the wrong Cost Breakdown Structure category (\$663 million in Operating Agency 22 and \$400.2 million in the Military Pay Division). The Military Pay Division should use the same accounting crosswalk developed by the Budget Integration and Evaluation Division to validate the cost data included in the Cost of War report.

## **Recommendations, Management Comments, and Our Response**

### **1. We recommend that the Executive Director, Army Resources and Programs Agency:**

**a. Develop, in coordination with the Office of the Deputy Chief of Staff for Logistics (Army G-4) and with assistance from the Defense Logistics Agency and U.S. Transportation Command, procedures for computing the funding required for Defense Logistics Agency's shipments of subsistence and supplies. The procedures should ensure that Operating Agency 22 includes sufficient funds for transportation costs incurred, but not billed, on the final fiscal year's end Military Interdepartmental Purchase Request issued to the U.S. Transportation Command.**

### ***Army Comments***

The Administrative Assistant to the Secretary of the Army agreed and stated that the Director, Resource Services Washington, Resources and Programs Agency has worked with the Office of the Deputy Chief of Staff for Logistics (Army G-4), with assistance from DLA and USTRANSCOM, to do the following to improve procedures for computing funding requirements.

- USTRANSCOM created a new Web site for billing to shorten the time between the date of transportation and the date services are billed to the Army.
- Representatives from Resource Services Washington, Army G-4, DLA, USTRANSCOM, and the other Military Services meet quarterly to focus on estimating funding requirements for DLA overocean transportation.
- Resource Services Washington, Army G-4, and DLA use internal metrics to forecast funding increases based on mission requirements driven by troop surges, U.S. Army Materiel Command fuel rates, port handling rates, liner charges, and any emerging requirements.
- Resource Services Washington provides sufficient funds to USTRANSCOM for all forecasted requirements and costs incurred. Funds are conveyed by Military Interdepartmental Purchase Requests throughout the fiscal year.

## ***Our Response***

The Administrative Assistant to the Secretary of the Army comments are responsive and meet the intent of the recommendation. No further comments are required.

**b. Report a potential Antideficiency Act violation in the FY 2007 Operation and Maintenance, Army appropriation as prescribed in DoD Financial Management Regulation, volume 14.**

## ***Army Comments***

The Administrative Assistant to the Secretary of the Army agreed and stated that Resource Services Washington submitted a flash report of a potential violation on December 19, 2008.

## ***Our Response***

The Administrative Assistant to the Secretary of the Army comments are responsive. No further comments are required.

**c. Implement procedures to ensure funding shortfalls are identified promptly and requests to reprogram funds between Budget Activities within the Operation and Maintenance, Army appropriation are submitted and approved before the funds are reprogrammed or used.**

## ***Army Comments***

The Administrative Assistant to the Secretary of the Army agreed and stated that Resource Services Washington and Army G-4 perform a monthly reconciliation of requirements and execution to ensure that funding levels are sufficient. Resource Services Washington is complying with the reprogramming of funds requirements in DoD 7000.14-R, volume 3, chapter 6.

## ***Our Response***

The Administrative Assistant to the Secretary of the Army comments are responsive and meet the intent of the recommendation. No further comments are required.

**2. We recommend that the Commander, U.S. Army Central develop and implement standard operating procedures for computing and recording an estimated obligation amount for transportation costs incurred, but not billed, at fiscal year's end.**

## ***Army Comments***

The Commander, ARCENT disagreed and stated that ARCENT personnel did not record an estimated obligation for unbilled transportation costs because they did not know the actual costs until the bills were received from USTRANSCOM. A system is not available to estimate unbilled transportation costs and use of historical averages is inappropriate because of anomalies, such as incorrect bills by USTRANSCOM and the troop surge in March 2007. He also stated that USTRANSCOM should use an on-line system similar to PowerTrack® to list bills as they occur so users would have a way to estimate the amount of unbilled transportation costs.

## ***Our Response***

The ARCENT comments are not responsive. ARCENT is responsible for limiting the obligation and expenditure of funds to the amount provided in the approved Funding Authorization Document. If the actual obligation amount is not known at fiscal year-end, ARCENT personnel should thoroughly analyze available information and provide their best estimate. If not for the de-obligation of duplicate obligations for supply transactions after FY 2007 year-end, ARCENT would have exceeded its authorized funding allowance target for FY 2007. The fact that existing transportation billing systems and processes prevent real-time billing of transportation costs by USTRANSCOM does not negate ARCENT responsibility for recording a best-estimate obligation for unbilled costs at fiscal year-end. Two different offices (G-4 and G-8) within ARCENT are responsible for coordinating transportation requests from subordinate units in support of contingency operations and for processing and approving USTRANSCOM bills and recording transportation obligations. ARCENT G-8, in coordination with ARCENT G-4 and USTRANSCOM, should develop procedures for estimating obligations for unbilled transportation costs based on historical data and trends and known and forecasted transportation requirements for movements of unit equipment and personnel. We request that the Commander, U.S. Army Central reconsider his position and provide comments on the final report by April 13, 2009.

**3. We recommend that the Director, Army Budget Office require the Military Pay Division to revise procedures and use the same accounting crosswalk developed by the Budget Integration and Evaluation Division to validate and report the transportation cost data for the Cost of War report.**

## ***Army Comments***

The Director, Management and Control, Army Budget Office agreed and stated that the division responsible for reporting on transportation of in-theater subsistence provided by DLA vendors used an outdated accounting crosswalk during FY 2007. He also stated that the issue was rectified, and the Army Budget Office continues to use the correct crosswalk for Cost of War reporting.

## ***Our Response***

The Army Budget Office comments are responsive and meet the intent of the recommendation. No further comments are required.



## **Appendix A. Scope and Methodology**

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

We evaluated DFAS and Army procedures and controls over the reporting of FY 2007 transportation costs related to GWOT. We reviewed guidance and interviewed DFAS Indianapolis personnel who compile the data received from DoD organizations and prepare the DoD Cost of War report. Specifically, we evaluated the procedures for compiling and reporting the obligation data for the Cost of War report. We reviewed standing operating procedures and interviewed personnel in Operating Agency 22, ARCENT, Army Budget Office, and the Office of the Deputy Chief of Staff for Logistics (Army G-4) to determine the processes used to record, classify, and report Cost of War data. We also interviewed DLA and USTRANSCOM personnel to determine procedures for billing transportation costs to the Army. We analyzed and compared transportation obligation data reported in the Army Standard Finance System accounting reports to the data submitted to DFAS Indianapolis for consolidation into the DoD Cost of War report. We compared FY 2007 obligation data reported in the accounting reports as of September 30, 2007, and March 31, 2008, to identify costs not included in the year-end FY 2007 Cost of War report.

### **Use of Computer-Processed Data**

We used computer-processed data initially recorded in the Standard Financial System, the Army's installation-level accounting system, and reported through the Operational Data Store and the Business Enterprise Information System to perform this audit. We did not test the general and application controls in the systems and did not make any conclusion about the reliability of the data. We did limited testing to verify that the obligation data recorded in the Standard Financial System and reported through the Operational Data Store and Business Enterprise Information System, were accurately recorded and summarized on the Cost of War report. As discussed in the finding, the accounting records used to compile the Cost of War report contained incomplete and inaccurate obligation data. However, we did not find errors that would preclude the use of the computer-processed data to meet the audit objective or that would change the conclusion in the report.



## Appendix B. Prior Coverage

During the last 5 years, the Government Accountability Office (GAO), the Department of Defense Inspector General (DoD IG), and the U.S. Army Audit Agency (AAA) have issued 16 reports discussing transportation and GWOT cost reporting. Unrestricted GAO reports can be accessed over the Internet at <http://www.gao.gov>. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/audit/reports>. AAA reports are restricted to military domains and GAO. They can be accessed at <https://www.aaa.army.mil/reports.htm>.

### **GAO**

GAO Report 08-423R, “Global War on Terrorism: Reported Obligations for the Department of Defense,” January 30, 2008

GAO Report No. 08-143R, “Operation Iraqi Freedom: DoD Assessment of Iraqi Security Forces’ Units as Independent Not Clear Because ISF Support Capabilities are Not Fully Developed,” November 30, 2007

GAO Report No. 08-68, “Global War on Terrorism: DoD Needs to Take Action To Encourage Fiscal Discipline and Optimize the Use of Tools Intended to Improve GWOT Cost Reporting,” November 2007

GAO Report No. 07-1056R, “Global War on Terrorism: Reported Obligations for the Department of Defense,” July 26, 2007

GAO Report No. 07-675R, “Defense Transportation: DoD Has Taken Actions to Incorporate Lessons Learned in Transforming Its Freight Distribution System,” May 8, 2007

GAO Report No. 07-671, “Defense Transportation: DoD Needs a Comprehensive Approach to Planning for Implementing Its New Personal Property Program,” May 2007

GAO Report No. 07-631, “Defense Budget: Trends in Operation and Maintenance Costs and Support Service Contracts,” May 2007

GAO Report No. 05-882, “Global War on Terrorism: DoD Needs to Improve the Reliability of Cost Data and Provide Additional Data to Control Costs,” September 2005

GAO Report No. 05-767, “Global War on Terrorism: DoD Should Consider All Funds Requested for the War When Determining Needs and Covering Expenses,” September 2005

GAO Report No. 04-668, “Military Operations: DoD’s Fiscal Year 2003 Funding and Reported Obligations in Support of the Global War on Terrorism,” May 2004

**DoD IG**

Report No. D-2008-059, "Supplemental Funds Used for Medical Support for the Global War on Terrorism," March 6, 2008

Report No. D-2008-027, "Air Force Use of Global War on Terrorism Supplemental Funding Provided for Procurement and Research, Development, Test, and Evaluation," November 21, 2007

**AAA**

Report No. A-2008-0267-FFM, "Funds Control Module," September 24, 2008

Report No. A-2008-0037-FFM, "Military Personnel, Army FY 05 Subsistence Charges," February 12, 2008

Report No. A-2008-0010-ALL, "Followup Audit of Internal Controls Over Cargo Container Payments, Military Surface Deployment and Distribution Command," November 2, 2007

Report No. A-2007-0186-ALR, "Funding Distribution Process Owner Initiatives: United States Transportation Command," August 10, 2007

# Appendix C. Cost Breakdown Structure

## Cost Categories

As of September 30, 2007, DoD reported total funds obligated of \$139.8 billion in support of GWOT. The DoD Regulation 7000.14-R, volume 12, chapter 23 establishes common cost categories for comparison on the Cost of War report called the Cost Breakdown Structure. The following are the seven main categories of the Cost Breakdown Structure on the Cost of War report.

- 1.0 Personnel Costs include incremental pay and allowances of DoD military and civilians participating in or supporting a contingency operation.
- 2.0 Personnel Support Costs include materials and services required to support Active and Reserve Component personnel and DoD civilian personnel engaged in the contingency operation.
- 3.0 Operating Support Costs include is the incremental costs of materiel and services used to conduct or support an operation including contract services.
- 4.0 Transportation Costs include transportation costs associated with supporting the contingency operation, including contract services, for all phases of the operation (to include deployment, sustainment, and redeployment).
- 5.0 Working Capital Fund Support Costs include costs associated with supporting the contingency operation accepted by Defense Working Capital Fund organizations for contingency operations.
- 6.0 Investment Costs include costs associated with supporting the contingency operation, appropriately financed in the Procurement; Research Development, Test, and Evaluation; and Military Construction appropriations for projects in support of contingency operations.
- 7.0 Other Support Costs include various departmental programs designed to reimburse coalition countries for logistical and military support, provide lift to and to sustain coalition partners during military operations, train and equip the Afghan National Army and Armed Forces of Iraq, and execute the Commander's Emergency Response Program.

## DoD and Army Transportation Cost Breakdown Subcategories

Transportation costs reported by the DoD as of September 30, 2007, were \$8.7 billion. The transportation Cost Breakdown Structure is further divided into six subcategories.

- 4.1 Airlift Costs include transporting personnel, equipment, and materiel either by commercial or military air transportation vehicles.
- 4.2 Sealift Costs include transporting personnel, equipment, and materiel by sea using commercial or active duty naval ships.

- 4.3 Ready Reserve Force/Fast Sealift Ship includes transporting personnel, equipment, and materiel by sea using ready reserve forces or fast sealift ship. It includes the cost to activate or deactivate and to make vessels ready for use in contingency operations.
- 4.4 Port Handling/Inland Transportation Costs include port handling costs and transportation of personnel, equipment, and material by land. It also includes any contracted services to support port handling or inland transportation. Further, it includes transportation between peacetime operating locations (home station) and ports and transportation between ports and the area of operation during deployment, sustainment, and redeployment.
- 4.5 Other Transportation Costs include transportation costs not included as airlift, sealift, ready reserve forces, or port handling/inland transportation.
- 4.6 Second Destination Transportation includes the cost of delivery of end items to a location in support of a contingency operation. It also includes DLA second destination costs.

# Department of the Army Comments



DEPARTMENT OF THE ARMY  
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY  
FINANCIAL MANAGEMENT AND COMPTROLLER  
109 ARMY PENTAGON  
WASHINGTON DC 20310-0109

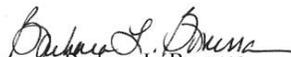
JAN 29 2009

MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL, 400 ARMY  
NAVY DRIVE, ARLINGTON, VA 22202-4704

SUBJECT: Response to Draft Report, Controls Over Reporting Transportation Costs in Support  
of the Global War on Terror (Project No. D2008-D000FI-0083.000)

1. This final memorandum completes Army response to the DoD IG draft report, Controls Over Reporting Transportation Costs in Support of the Global War on Terror (Project No. D2008-D000FI-0083.000). An interim response was provided under separate cover on 16 January 2009.
2. The report identified three Army agencies to respond to recommendations. The response to recommendation 1, from Executive Director, Army Resources and Programs Agency, was provided in the initial response. The response to recommendation 2, from Commander, United States Army Central Command, is provided as an enclosure to this memorandum. Recommendation 3 required comment from the Army Budget Office and was provided in the initial response.
3. My point of contact for this action is LTC Lisa Titus at 703-614-4771.

Encl

  
Barbara L. Bonessa

Director, Management and Control



REPLY TO  
ATTENTION OF:

DEPARTMENT OF THE ARMY  
UNITED STATES ARMY CENTRAL  
1881 HARDEE AVE SW  
FORT MCPHERSON, GA 30330-1054

ACEN-RMZ-M

MEMORANDUM FOR U.S. Department of Defense Office of the Inspector General; ATTN: Carmelo G. Ventimiglia.

SUBJECT: Draft Audit Report, Department of Defense Office of the Inspector General (DoDIG) Audit of Controls Over the Reporting of Transportation Costs in Support of the Global War on Terrorism.

Reference: Draft Audit Report, Department of Defense Office of the Inspector General (DoDIG) Audit of Controls Over the Reporting of Transportation Costs in Support of the Global War on Terrorism. (Project No. D2008-D000FI-0083.000)

1. USARCENT provides the following response to the DoDIG recommendation.

a. **Recommendation:** We recommend that the Commander, U.S. Army Central develop and implement standard operating procedures for computing and recording an estimated obligation amount for transportation costs incurred, but not billed, at fiscal year's end.

**USARCENT Response: NONCONCUR.** On page 12 in paragraph 2 in the draft report the audit states, "Because of the lack of written procedures and known system problems, ARCENT personnel did not attempt to compute and record an accurate obligation estimate for unbilled transportation costs". The real issue is ARCENT personnel can not estimate the unbilled transportation costs because we don't know what the bill will be until we receive it from USTRANSCOM. The Army G-4, who is responsible for Army Transportation, does not know the Army costs until the TRANSCOM bills are received. There are no available systems that can be used to make an estimate and usage of historical averages is inappropriate because of anomalies such as incorrect billing by TRANSCOM and the Troop Surge in March 2007. ARCENT's recommended outcome of this audit is that TRANSCOM utilizes an on-line system similar to POWERTRACK to list bills as they occur. By using a similar system all users would have a way to estimate the amount of unbilled costs.

ARCENT's point of contact for this action is Mary F. Hansen, (404) 464-4880. Email address is : [mary.hansen@arcent.army.mil](mailto:mary.hansen@arcent.army.mil).

2. Point of contact for issues related to this memorandum is USARCENT Audit Liaison at DSN 312-367-2293.

FOR THE COMMANDER:

  
KEVIN M. BATULE  
Colonel, GS  
Chief of Staff



DEPARTMENT OF THE ARMY  
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY  
FINANCIAL MANAGEMENT AND COMPTROLLER  
109 ARMY PENTAGON  
WASHINGTON DC 20310-0109

MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL, 400 ARMY  
NAVY DRIVE, ARLINGTON, VA 22202-4704

SUBJECT: Response to Draft Report, Controls Over Reporting Transportation Costs in Support  
of the Global War on Terror (Project No. D2008-D000FI-0083.000)

1. This memorandum transmits the initial Army response to the DoD IG draft report, Controls  
Over Reporting Transportation Costs in Support of the Global War on Terror (Project No.  
D2008-D000FI-0083.000).
2. The report identified three Army agencies to respond to recommendations. The response to  
recommendation 1, from Executive Director, Army Resources and Programs Agency, is  
provided as an enclosure to this memorandum. The response to recommendation 2, from  
Commander, United States Army Central Command, will be provided separately prior to the  
DoD IG approved extended suspense date of 26 January 2009. Recommendation 3 required  
comment from the Army Budget Office and is provided below:

**RECOMMENDATION 3:** We recommend that the Director, Army Budget Office  
require the Military Pay Division to revise procedures and use the same accounting crosswalk  
developed by the Budget Integration and Evaluation Division to validate and report the  
transportation cost data for the Cost of War report.

**ARMY RESPONSE:** Concur. The division within the Army Budget Office  
responsible for reporting on transportation of in-theater subsistence provided by Defense  
Logistics Agency (DLA) vendors used an out-dated Sub-activity Group (SAG) to Cost  
Breakdown Structure (CBS) crosswalk during Fiscal Year 2007. This issue has been rectified,  
and the Army Budget Office continues to use the correct crosswalk for Cost of War reporting.

3. My point of contact for this action is LTC Lisa Titus at 703-614-4771.

  
Barbara L. Bonessa  
Director, Management and Control

Enclosure



DEPARTMENT OF THE ARMY  
ADMINISTRATIVE ASSISTANT TO THE SECRETARY OF THE ARMY  
105 ARMY PENTAGON  
WASHINGTON DC 20310-0105

JAN 15 2009

MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL,  
400 ARMY NAVY DRIVE, ARLINGTON, VA 22202-4704

SUBJECT: Response to Draft Report on Controls Over Reporting Transportation Costs  
in Support of the Global War on Terror (Project No. D2008-D000FI-0083.000)

1. **Purpose.** This memorandum provides the official Army position for  
Recommendations 1.a, 1.b, and 1.c. of the subject report.

2. **Recommendations.** In the draft report the Department of Defense Inspector  
General recommends that the Executive Director, U.S. Army Resources and Programs  
Agency:

- 1.a. Develop, in coordination with the Office of the Deputy Chief of Staff for Logistics (Army G-4) and with the assistance from the Defense Logistics Agency and U.S. Transportation Command, procedures for computing the funding required for Defense Logistics Agency's shipments of subsistence and supplies. The procedures should ensure that Operating Agency 22 includes sufficient funds for transportation costs incurred, but not billed, on the final fiscal year end's Military Interdepartmental Purchase Request issued to the U.S. Transportation Command.
- 1.b. Report a potential Antideficiency Act violation in the FY 2007 Operation and Maintenance, Army appropriation as prescribed in DoD Financial Management Regulation, volume 14.
- 1.c. Implement procedures to ensure funding shortfalls are identified promptly and requests to reprogram funds between Budget Activities within the Operation and Maintenance, Army appropriation are submitted and approved before the funds are reprogrammed or used.

3. **Official Army Position**

- 1.a. Concur. The Director, Resource Services-Washington (RSW), Resources and Programs Agency, in coordination with the Office of the Deputy Chief of Staff, G-4 (Army G-4) and with assistance from Defense Logistics Agency (DLA) and Transportation Command (USTRANSCOM), has taken these actions:
  - USTRANSCOM created a new Web site for billing to help shorten the length of time between the date of transportation and the date services are billed to the Army.

SUBJECT: Response to Draft Report on Controls Over Reporting Transportation Costs in Support of the Global War on Terror (Project No. D2008-D000FI-0083.000)

- Quarterly meetings that focus on estimating funding requirements for DLA over-ocean transportation with representatives from RSW, Army G-4, USTRANSCOM, DLA, and all Services have been implemented.
  - Through the use of internal metrics, RSW, Army G-4, and USTRANSCOM are better able to forecast funding increases based on mission requirements driven by troop surges, U.S. Army Materiel Command fuel rates, port handling rates, liner charges, and any emerging requirements.
  - RSW is providing sufficient funds to USTRANSCOM for all forecasted requirements and costs incurred. Funds are adequately conveyed via military interdepartmental purchase requests throughout the fiscal year.
- 1.b. Concur. RSW submitted a flash report of a potential violation on 19 December 2008.
  - 1.c. Concur. RSW has procedures in place to identify program shortfalls. RSW and Army G-4 do a monthly reconciliation of requirements and execution to ensure that current funding levels are sufficient. RSW is complying with requirements in DoD 7000.14-R, Volume 3, chapter 6 (Reprogramming of DoD Appropriated Funds) for the purpose of funding second destination transportation.
4. **Point of Contact.** If you have any questions or need additional information, contact Ms. Debra Schaefer, 703-602-2287 or [debra.schaefer@us.army.mil](mailto:debra.schaefer@us.army.mil).

  
JOYCE E. MORROW







# Inspector General Department of Defense

