



441 G St. N.W.  
Washington, DC 20548

**Accessible Version**

January 10, 2018

The Honorable John McCain  
Chairman  
The Honorable Jack Reed  
Ranking Member  
Committee on Armed Services  
United States Senate

The Honorable Mac Thornberry  
Chairman  
The Honorable Adam Smith  
Ranking Member  
Committee on Armed Services  
House of Representatives

**Defense Budget: Obligations of Overseas Contingency Operations  
Funding for Operation and Maintenance Base Requirements**

Since September 2001, Congress has appropriated approximately \$1.7 trillion to the Department of Defense (DOD) to fund overseas contingency operations (OCO).<sup>1</sup> Since fiscal year 2010, DOD has requested, and Congress has authorized and appropriated, separate amounts for both operation and maintenance (O&M) base requirements<sup>2</sup> and O&M OCO requirements as part of the annual budget cycle.<sup>3</sup> Both amounts, however, are appropriated into and executed out of the military services' existing O&M accounts. Congress directs how both O&M base and O&M OCO appropriations are to be obligated by designating specific amounts at the subactivity level in conference reports or explanatory statements accompanying annual appropriations acts. On occasion, Congress has directed that O&M OCO appropriations be used to support base requirements. For example, in fiscal year 2015 Congress directed that \$1 billion of O&M OCO appropriations be used to improve DOD military readiness, including increased training, depot maintenance, and operations support for installations—requirements that are generally supported with O&M base appropriations.

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<sup>1</sup>DOD defines “contingency operations” as small, medium, or large-scale military operations, including peacekeeping operations, major humanitarian assisted efforts, noncombatant evacuation operations, and international disaster relief efforts.

<sup>2</sup>Base requirements are those costs that would be incurred whether or not a contingency operation took place. O&M base requirements encompass continuing annual costs of DOD’s routine operations, including operating support for installations, training and education, civilian personnel, maintenance, contracted services, and defense health.

<sup>3</sup>Prior to fiscal year 2010, supplemental appropriations generally provided additional budget authority needed by DOD for contingency operations and were most often identified as Global War on Terror (GWOT) rather than as OCO funding. “Supplemental appropriations” are funds appropriated in addition to those already enacted in an annual appropriation act and provide additional budget authority usually in cases where the need for funds is too urgent to be postponed until the enactment of the regular appropriation bill.

From 2014 through 2017, we issued four reports related to DOD's use of, or reporting on, O&M and OCO funds.<sup>4</sup> Most recently, in January 2017 we recommended that DOD, in consultation with the Office of Management and Budget, reevaluate and revise the criteria for determining what can be included in DOD's OCO budget requests to reflect current OCO-related activities and relevant budget policy. We also recommended that DOD develop a complete and reliable estimate of its enduring OCO costs, report these costs in concert with the department's future budget requests, and use the estimate as a foundation for any future efforts to transition enduring costs to DOD's base budget.<sup>5</sup> DOD concurred with our first recommendation and partially concurred with our second recommendation, but has not taken any steps to implement them. In enclosure I, we provide information on the recommendations we made in these prior four reports and summarize the implementation status of each recommendation.

The National Defense Authorization Act for Fiscal Year 2016<sup>6</sup> authorized \$9.1 billion of O&M OCO appropriations to be made available for the support of specific base requirements.<sup>7</sup> Authorized amounts for designated base requirements were specified in the funding table in section 4303 of the National Defense Authorization Act for Fiscal Year 2016. The Consolidated Appropriations Act, 2016, subsequently appropriated the O&M OCO amounts for base activities authorized in section 4303 as O&M base amounts.<sup>8</sup> The National Defense Authorization Act for Fiscal Year 2016 also included a provision for us to report on how all funds authorized pursuant to section 4303 for base requirements were ultimately obligated by DOD. This report describes how DOD obligated the \$9.1 billion that Congress authorized to be appropriated for base requirements in fiscal year 2016.

In order to determine how DOD obligated the \$9.1 billion in O&M OCO amounts authorized for base requirements, we first compared the O&M OCO amounts authorized for each subactivity group in section 4303 with the appropriated O&M amounts designated for the same subactivity groups.<sup>9</sup> The amounts authorized in section 4303 for readiness activities were ultimately appropriated as O&M base, not O&M OCO, amounts. We then analyzed O&M base obligation data from DOD's execution reports, budget materials, and data provided by the military services related to the designated subactivity groups. As we have previously reported, DOD does not

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<sup>4</sup>GAO, *Overseas Contingency Operations: OMB and DOD Should Revise the Criteria for Determining Eligible Costs and Identify the Costs Likely to Endure Long Term*, [GAO-17-68](#) (Washington, D.C.: Jan. 18, 2017); *Bulk Fuel: Actions Needed to Improve DOD's Fuel Consumption Budget Data*, [GAO-16-644](#) (Washington, D.C.: Sept. 12, 2016); *Defense Budget: DOD Needs to Improve Reporting of Operation and Maintenance Base Obligations*, [GAO-16-537](#) (Washington, D.C.: Aug. 16, 2016); and *Defense Headquarters: Guidance Needed to Transition U.S. Central Command's Costs to the Base Budget*, [GAO-14-440](#) (Washington, D.C.: June 9, 2014).

<sup>5</sup>Enduring OCO costs are those costs that would remain after the contingency operations end, and that would need to be transitioned to DOD's base budget request if OCO funding were no longer available. An example of an enduring cost would be maintaining residual headquarters staff at U.S. Central Command in Qatar to train, advise, and assist as missions have evolved from contingency to routine operations.

<sup>6</sup>Pub. L. No. 114-92 (2015).

<sup>7</sup>Congress authorizes the appropriation of funds as a part of the National Defense Authorization Act and separately appropriates funds to O&M appropriation accounts as a part of appropriations acts. Each military service component (active, reserve, and National Guard) has its own O&M appropriation account; there are also O&M accounts for defense-wide and other DOD programs. Congress generally specifies in conference reports or explanatory statements accompanying each appropriation act the amount designated for the subactivity groups that make up each appropriation account. The designated amounts specified in the conference reports or explanatory statements are not legally binding unless they are incorporated by reference into an appropriations act or other statute.

<sup>8</sup>Pub. L. No. 114-113, div. C (2015).

<sup>9</sup>A subactivity group is an accounting designation used by DOD for purposes of budget and appropriations execution.

separately report execution data for base and OCO obligations, although OCO-specific obligations are presented separately in DOD's annual budget justification materials and in DOD's Cost of War reports.<sup>10</sup> Therefore, to determine fiscal year 2016 base obligations, we subtracted obligations of OCO funds as well as other funds transferred into the individual military services' O&M appropriation accounts from total O&M obligations.

To assess the reliability of DOD's obligation data, we obtained responses from knowledgeable agency officials on what controls the individual military services have in place to ensure data reliability. We also reviewed available agency documentation as well as our previous work that used these data.<sup>11</sup> We noted some potential limitations in certain military services' ability to track some OCO obligations, as well as ways the military services have addressed those potential limitations. We also compared the data provided with published data, such as the data reported in DOD's budget justification materials as well as additional data we requested for the purpose of corroborating the data the military services originally provided. We determined that the data provided were sufficiently reliable for the purpose of describing how O&M OCO amounts authorized in section 4303 for base requirements were ultimately appropriated and obligated by component and subactivity group in fiscal year 2016.

We conducted this performance audit from April 2017 to January 2018 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.

## **DOD Reported Obligorating the OCO O&M Appropriations Authorized for Base Requirements on Base Programs and Activities**

DOD reported obligating the \$9.1 billion that Congress authorized as O&M OCO amounts for base requirements designated in section 4303 largely for base programs and activities, such as for headquarters, maintenance, and transportation costs. The Consolidated Appropriations Act, 2016, subsequently appropriated the O&M OCO amounts for base requirements authorized in section 4303 as O&M base amounts. The explanatory statement accompanying the Consolidated Appropriations Act, 2016, ultimately designated \$8.6 billion of the \$9.1 billion authorized as base funds rather than as OCO funds as was authorized in section 4303.<sup>12</sup> DOD reported obligating these funds as designated in the explanatory statement, but in some cases the total fiscal year 2016 obligation amounts exceed the designated appropriation amounts as a result of transfers and reprogrammings.<sup>13</sup> In table 1, we show by component the O&M amounts

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<sup>10</sup>GAO-16-537. Because OCO appropriations are in addition to appropriations for base requirements, DOD executes both OCO and O&M base appropriations out of the same appropriation-level accounts established for each military service.

<sup>11</sup>GAO-16-537.

<sup>12</sup>161 Cong. Rec. H9760 (Dec. 17, 2015) (explanatory statement submitted by Rep. Rogers, Chairman of the House Committee on Appropriations). One section 4303 subactivity group received \$500 million in O&M OCO appropriations for base requirements, in addition to O&M base amounts.

<sup>13</sup>DOD has the authority to realign funds within and between appropriation accounts. DOD can realign funds (1) between appropriations accounts through transfers and (2) within an appropriation account through reprogramming. Transfers require statutory authority. DOD may reprogram funds within an appropriation account up to a specific threshold without additional authority. If a reprogramming exceeds the threshold level established by Congress, prior approval by Congress is required.

authorized as OCO funds for base requirements, but appropriated and reported as obligated as O&M base amounts for fiscal year 2016.

**Table 1: Operation and Maintenance (O&M) Amounts Authorized as Overseas Contingency Operations (OCO) Funds for Base Requirements, but Appropriated and Reported as Obligated as O&M Base Amounts for Fiscal Year 2016 by Component**

In thousands of dollars

<b>Component</b>	<b>O&amp;M OCO amounts authorized for base requirements</b>	<b>O&amp;M base appropriations<sup>a</sup></b>	<b>O&amp;M base obligations<sup>b</sup></b>
Army	1,782,164	1,770,164	1,832,943
Army Reserve	10,665	10,665	10,372
Army National Guard	6,570	6,570	6,015
Navy	2,598,482	2,598,482	2,752,335
Navy Reserve	326	326	244
Marine Corps	37,386	37,386	60,105
Air Force	3,261,050	2,756,068 <sup>c</sup>	2,933,714
Air Force Reserve	487,036	487,036	467,380
Defense-wide agencies	924,092	959,390	955,598
<b>Total</b>	<b>9,107,771</b>	<b>8,626,087</b>	<b>9,018,706</b>

Source: GAO analysis of section 4303 of the National Defense Authorization Act for Fiscal Year 2016; the explanatory statement accompanying the Consolidated Appropriations Act, 2016; and military service data. | GAO-18-202R

<sup>a</sup>O&M base appropriations refers to amounts for each component designated in the explanatory statement accompanying the Consolidated Appropriations Act, 2016.

<sup>b</sup>O&M base obligation amounts may exceed designated appropriation amounts as a result of transfers and reprogrammings.

<sup>c</sup>In addition to the O&M base amounts designated for section 4303 subactivity groups, one section 4303 subactivity group also received \$500 million in O&M OCO appropriations for base requirements.

In enclosure II, we provide additional detail on authorized, appropriated, and reported obligated amounts for each subactivity group identified in section 4303. In enclosure III, we provide additional information reported by the military services on the obligation of O&M OCO appropriations designated for base subactivity groups not identified in section 4303. In enclosure IV, we describe how the military services track their respective obligations of O&M OCO funds for base requirements.

## Agency Comments

We provided a draft of this report to DOD for review and comment. In its written comments, reproduced in enclosure V, DOD stated that it had no comments on the report and noted that its position as it relates to the previously published reports discussed in this report has not changed.

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We are sending copies of this report to the appropriate congressional committees and to the Secretary of Defense. In addition, the report is available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-3489 or [pendletonj@gao.gov](mailto:pendletonj@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report include Richard Geiger (Assistant Director), Martin De Alteriis, Mae Jones, Felicia Lopez, Daniel Ramsey, and Barbara Wooten.



John H. Pendleton  
Director, Defense Capabilities and Management  
**Enclosures – 5**

## Enclosure I: Status of Prior Recommendations from Selected Reports Related to the Department of Defense's (DOD) Use of Overseas Contingency Operations (OCO) Funds

From 2014 through 2017, we issued four reports related to DOD's use of or reporting on OCO funds.

In January 2017 we issued a report entitled *Overseas Contingency Operations: OMB and DOD Should Revise the Criteria for Determining Eligible Costs and Identify the Costs Likely to Endure Long Term*, [GAO-17-68](#). In this report, we found that the Office of Management and Budget (OMB), in collaboration with DOD, issued criteria for deciding whether items properly belong in the base budget or in the OCO funding request, but the criteria were outdated and did not address the full scope of activities included in DOD's fiscal year 2017 OCO budget request. We also reported that the department had developed an initial estimate of costs being funded with OCO appropriations that are likely to endure beyond current operations, but had not finalized or reported its estimate outside of the department. According to DOD officials, an internal working group established in 2014 estimated that enduring costs account for between \$20 billion and \$30 billion per year – or as much as 43 percent of DOD's total OCO budget request for fiscal year 2017.<sup>14</sup>

We made two recommendations in this report. First, we recommended that DOD, in consultation with OMB, reevaluate and revise the criteria for determining what can be included in DOD's OCO budget requests to reflect current OCO-related activities and relevant budget policy directing in which budget requests OCO funds may be included. DOD concurred with this recommendation and stated it planned to propose updated criteria to OMB to reflect current and evolving threats and reflect any changes in overseas contingency operations policy under the new administration. Second, we recommended that DOD develop a complete and reliable estimate of its enduring OCO costs and report these costs in concert with the department's future budget requests, and use the estimate as a foundation for any future efforts to transition enduring costs to DOD's base budget. DOD partially concurred with this recommendation and commented that developing reliable estimates of enduring OCO costs is an important first step to any future effort to transition enduring OCO costs to the base budget and in the context of such an effort it would consider developing and reporting formal estimates of those costs. However, DOD stated that until there is relief from the budgetary caps established by the Budget Control Act of 2011, DOD would need OCO funding to finance counterterrorism operations such as Operation Freedom Sentinel and Operation Inherent Resolve. The department has not taken steps to address these two recommendations. As of October 2017, neither OMB nor DOD has publically released updated criteria, and DOD has not made any updates to its financial management regulations that govern contingency operations to reflect the criteria.<sup>15</sup> In addition, DOD's fiscal year 2018 budget request continued to include activities that our report identified as not being specifically addressed in the OMB criteria, including operations in Syria, the European Reassurance Initiative, and security cooperation funds (formerly known as the Counterterrorism Partnership Fund). In October 2017, a DOD official

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<sup>14</sup>Subsequent to the issuance of our report, in March 2017 DOD requested additional OCO appropriations. As a result, the amount of enduring costs as a percent of DOD's total OCO budget request for fiscal year 2017 is lower than we reported in January 2017.

<sup>15</sup>DOD, *Financial Management Regulation*, 7000.14-R, vol. 12, chap. 23 (September 2007).



stated that the department has discussed possible modifications to the criteria with the military departments and combatant commands, but has not made any formal recommendations to OMB to revise the criteria at this time. DOD's fiscal year 2018 budget request, issued in May 2017, did not include an estimate of the department's enduring OCO costs as we had recommended.

In September 2016 we issued a report entitled *Bulk Fuel: Actions Needed to Improve DOD's Fuel Consumption Budget Data*, [GAO-16-644](#). In this report, we found that DOD's budget materials did not separate the military services' actual operation and maintenance (O&M) base obligations for fuel consumption spending for day-to-day activities from its actual O&M OCO obligations for war-related fuel consumption spending. We recommended that DOD report complete fuel consumption information to Congress, to include actual and estimated fuel volume and actual O&M base obligations for fuel consumption spending separate from O&M OCO obligations. This information could be provided as part of DOD's annual O&M budget justification materials, or through other reporting mechanisms. DOD did not concur with the recommendation. DOD stated that it agreed that including additional fuel consumption detail could be useful information and stated that it will look at ways to incorporate additional data in upcoming budget submissions. However, DOD stated that it would be very difficult and labor intensive to implement a system to separate base from OCO data and cited several reasons. Among those reasons, DOD stated that many legacy financial systems currently in use cannot easily distinguish between base and OCO execution data. DOD also stated that manually identifying these data would be extremely labor intensive. DOD also stated that once all DOD components convert from the legacy systems, the department should be able to report base and OCO obligations consistently and effectively. DOD has not taken any action to implement this recommendation; however, we continue to believe that the recommendation is valid and will follow up annually on the status of the recommendation with DOD.

In August 2016 we issued a report entitled *Defense Budget: DOD Needs to Improve Reporting of Operation and Maintenance Base Obligations*, [GAO-16-537](#). In this report, we found that DOD reported a combination of O&M base and O&M OCO obligations in its budget justification materials and execution reports, but did not separately report its base and OCO obligations. We found that the military services tracked O&M obligations by base and OCO appropriations for OCO reporting purposes, but DOD's financial management regulations did not require it to report O&M base obligations separately for each account in its budget justification materials and execution reports.<sup>16</sup> We recommended that DOD separately report O&M base and O&M OCO obligations in its budget justification materials and execution reports. DOD did not concur with the recommendation. In its comments on our report, DOD stated that many legacy financial systems currently cannot distinguish between O&M base and O&M OCO obligations easily, though DOD should be able to separately report base and OCO obligations across all appropriations once all DOD components have converted from their legacy financial systems. DOD has not taken any action to implement this recommendation; however, we continue to believe that the recommendation is valid and will follow up annually on the status of the recommendation with DOD.

In June 2014 we issued a report entitled *Defense Headquarters: Guidance Needed to Transition U.S. Central Command's Cost to the Base Budget*, [GAO-14-440](#). In this report, we found that the U.S. Central Command and several of its associated military service component commands

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<sup>16</sup>DOD, *Financial Management Regulation*, 7000.14-R (June 2011).

primarily used OCO appropriations to operate their headquarters. In addition, we found that U.S. Central Command and its components had determined that some of the headquarters costs were enduring and were expected to continue after the end of contingency operations, but the military services have not transitioned or developed a time frame to transition these enduring costs to DOD's base budget. We recommended that DOD develop guidance on transitioning enduring activities that have been funded with OCO appropriations to DOD's base budget, including a time frame for this transition. DOD partially concurred with our recommendation, stating that while the timeline for transitioning enduring costs to the base budget was critical, the process could not be accomplished as a one-time event due to the evolution of threats and the impact of budget laws, and that providing guidance would be a multiyear process that will be refined as the department gets a clearer picture of U.S. Central Command's enduring missions as well as of the criteria for and scope of future OCO budgets. In its fiscal year 2016 budget request, DOD reported that the Administration intended to propose a plan to transition its enduring OCO costs to the base budget. According to information included in DOD's budget, as the U.S. combat mission ended in Afghanistan, it was time to reconsider the appropriate financing mechanism for costs of overseas operations that were enduring. The plan envisioned by the Administration would transition all enduring costs currently funded in the OCO budget to the base budget beginning in fiscal year 2017 and ending by fiscal year 2020. However, it was also asserted that the transition would not be possible if the sequester-level discretionary spending caps were to remain in place. According to DOD officials, the plan was not submitted because the fiscal year 2017 budget was developed so as to be consistent with the Bipartisan Budget Act, which increased the amount of enduring costs funded in OCO.<sup>17</sup> Furthermore, in October 2017, DOD officials told us that the current discretionary spending caps limit their ability to transition enduring costs currently funded in the OCO budget to the base budget.

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<sup>17</sup>Pub. L. No. 114-74 (2015).



## Enclosure II: Authorization, Appropriation, and Reported Obligation of Overseas Contingency Operations (OCO) Funds for Base Requirements by Subactivity Group

Section 4303 of the National Defense Authorization Act for Fiscal Year 2016 authorized \$9.1 billion in operation and maintenance (O&M) OCO appropriations to be made available for the support of specific base budget requirements.<sup>18</sup> The Consolidated Appropriations Act, 2016,<sup>19</sup> subsequently appropriated the O&M OCO amounts authorized for base activities in section 4303 as O&M base amounts. DOD generally reported obligating amounts as designated in the explanatory statement accompanying the Consolidated Appropriations Act, 2016,<sup>20</sup> but in some cases the obligation amounts exceed the designations as a result of transfers and reprogrammings.<sup>21</sup> For example, the Army reprogrammed funds into its prepositioned stocks and service-wide transportation subactivity groups due to changes in requirements during the fiscal year, while the Navy transferred amounts from its Ship Modernization, Operations, and Sustainment Fund to its ship depot operations support subactivity group within the Navy's O&M account in order to support maintenance and modernization efforts for certain ships.<sup>22</sup> In table 2, we show by subactivity group the O&M OCO amounts authorized for base requirements but appropriated and reported as obligated as base funds.

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<sup>18</sup>Congress authorizes the appropriation of funds as a part of the National Defense Authorization Act and separately appropriates funds to O&M appropriation accounts as a part of appropriations acts. Each military service component (active, reserve, and National Guard) has its own O&M appropriation account; there are also O&M accounts for defense-wide and other DOD programs. Congress generally specifies in conference reports or explanatory statements accompanying each appropriation act the amount designated for the subactivity groups that make up each appropriation account. The designated amounts specified in the conference reports or explanatory statements are not legally binding unless they are incorporated by reference into an appropriations act or other statute.

<sup>19</sup>Pub. L. No. 114-113, div. C (2015).

<sup>20</sup>161 Cong. Rec. H9760 (Dec. 17, 2015) (explanatory statement submitted by Rep. Rogers, Chairman of the House Committee on Appropriations). One section 4303 subactivity group received \$500 million in O&M OCO appropriations for base requirements, in addition to O&M base amounts.

<sup>21</sup>DOD has the authority to realign funds within and between appropriation accounts. DOD can realign funds (1) between appropriations accounts through transfers and (2) within an appropriations account through reprogramming. Transfers require statutory authority. DOD may reprogram funds within an appropriation account up to a specific threshold without additional authority. If a reprogramming exceeds the threshold level established by Congress, prior approval by Congress is required.

<sup>22</sup>The Ship Modernization, Operations, and Sustainment Fund account was established by the Consolidated and Further Continuing Appropriations Act, 2013, Pub. L. No. 113-6 (2013), and amended in fiscal year 2014. The Secretary of the Navy must transfer amounts made available in the fund to other Navy appropriation accounts including O&M base. Transferred amounts are merged with the receiving account and may only be used for the purposes of manning, operating, sustaining, equipping, and modernizing certain specified guided missile cruisers and dock landing ships.

**Table 2: Operation and Maintenance (O&M) Amounts Authorized as Overseas Contingency Operations (OCO) Funds for Base Requirements, but Appropriated and Reported as Obligated as O&M Base Amounts for Fiscal Year 2016 by Subactivity Group**

In thousands of dollars

	<b>Subactivity group</b>	<b>O&amp;M OCO amounts authorized for base requirements</b>	<b>O&amp;M base appropriations<sup>a</sup></b>	<b>O&amp;M base obligations<sup>b</sup></b>
<b>Army</b>	Management and operational headquarters	421,269	421,269	416,159
	Combatant commanders core operations	164,743	164,743	163,193
	Strategic mobility	401,638	389,638	382,090
	Army prepositioned stocks	261,683	261,683	289,231
	Industrial preparedness	6,532	6,532	6,517
	Service-wide transportation	485,778	485,778	540,439
	Miscellaneous support of other nations	40,521	40,521	35,314
	<b>Subtotal</b>	<b>1,782,164</b>	<b>1,770,164</b>	<b>1,832,943</b>
<b>Army Reserve</b>	Service-wide transportation	10,665	10,665	10,372
<b>Army National Guard</b>	Service-wide transportation	6,570	6,570	6,015
<b>Navy</b>	Aviation technical data and engineering services	37,225	37,225	37,050
	Ship depot operations support	1,554,863	1,554,863	1,722,155
	Ship prepositioning and surge	422,846	422,846	418,453
	Ship activations/inactivations	361,764	361,764	345,910
	Industrial readiness	2,237	2,237	2,236
	Coast Guard support	21,823	21,823	21,807
	Service-wide transportation	197,724	197,724	204,724
	<b>Subtotal</b>	<b>2,598,482</b>	<b>2,598,482</b>	<b>2,752,335</b>
<b>Navy Reserve</b>	Aircraft depot operations support	326	326	244
<b>Marine Corps</b>	Service-wide transportation	37,386	37,386	60,105
<b>Air Force</b>	Mobilization preparedness	148,318	136,818	130,557
	Depot maintenance (mobility operations)	1,617,571	1,117,571 <sup>c</sup>	1,090,693
	Facilities sustainment, restoration, and modernization (mobility operations)	259,956	273,474	405,381
	Base support (mobility operations)	708,799	701,799	842,700
	Depot maintenance (basic skills and advanced training)	375,513	375,513	341,826
	Depot maintenance (logistics operations)	61,745	61,745	47,434
	International support	89,148	89,148	75,123
	<b>Subtotal</b>	<b>3,261,050</b>	<b>2,756,068</b>	<b>2,933,714</b>

Subactivity group		O&M OCO amounts authorized for base requirements	O&M base appropriations <sup>a</sup>	O&M base obligations <sup>b</sup>
<b>Air Force Reserve</b>	Depot maintenance	487,036	487,036	467,380
<b>Defense-wide agencies</b>	Defense Security Service	508,396	546,694	545,110
	Defense Threat Reduction Agency	415,696	412,696	410,488
	<b>Subtotal</b>	<b>924,092</b>	<b>959,390</b>	<b>955,598</b>
<b>All</b>	<b>Total</b>	<b>9,107,771</b>	<b>8,626,087</b>	<b>9,018,706</b>

Source: GAO analysis of section 4303 of the National Defense Authorization Act for Fiscal Year 2016; the explanatory statement accompanying the Consolidated Appropriations Act, 2016; and military service data. | GAO-18-202R

<sup>a</sup>O&M base appropriations refers to the amount for each subactivity group as designated in the explanatory statement accompanying the Consolidated Appropriations Act, 2016.

<sup>b</sup>O&M base obligation amounts may exceed designated appropriation amounts as a result of transfers and reprogrammings.

<sup>c</sup>This subactivity group received \$500 million in O&M OCO appropriations for base requirements in addition to O&M base amounts.

### **Enclosure III: Obligations Reported by the Military Services of Overseas Contingency Operations (OCO) Appropriations Designated for Operation and Maintenance (O&M) Base Requirements**

The explanatory statement accompanying the Consolidated Appropriations Act, 2016,<sup>23</sup> also designated \$7.02 billion of the Department of Defense's (DOD) O&M OCO appropriation for O&M base requirements for subactivity groups not included in section 4303 of the National Defense Authorization Act for Fiscal Year 2016.<sup>24</sup> Of the \$7.02 billion, the military services reported obligating about \$6.95 billion, including about \$6.84 billion for base requirements, as designated, and about \$114 million for OCO requirements.

#### **Army**

The Army reported obligating nearly all of the \$2.2 billion of O&M OCO appropriations designated for base requirements in the explanatory statement. According to Army data and officials, about \$33.7 million was reported as obligated for OCO requirements, specifically for depot maintenance in support of Operation Freedom's Sentinel, primarily in Afghanistan. According to Army officials, the OCO funds designated for base requirements may be used for either OCO or base requirements at the discretion of the receiving command. In addition, \$4.65 million of O&M OCO appropriations designated for base requirements were obligated for two base subactivity groups not designated in the explanatory statement as the result of reprogramming. In table 3, we provide additional information on the Army's reported obligations of O&M OCO appropriations designated for base requirements by subactivity group. Army officials stated that OCO appropriations designated for base purposes are generally executed similarly to base appropriations, though civilian pay is generally executed using base appropriations because of the difficulty in changing payroll records and the fact that OCO appropriations designated for O&M base purposes are not an enduring funding source.

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<sup>23</sup>161 Cong. Rec. H9760 (Dec. 17, 2015) (explanatory statement submitted by Rep. Rogers, Chairman of the House Committee on Appropriations).

<sup>24</sup>Pub. L. No. 114-92 (2015). One subactivity group identified in section 4303 of the National Defense Authorization Act for Fiscal Year 2016, Air Force depot maintenance (mobility operations), received about \$1.1 billion in O&M base, as well as \$500 million in O&M OCO appropriations for base requirements.

**Table 3: Army's Reported Obligations of Operation and Maintenance (O&M) Overseas Contingency Operations (OCO) Appropriations Designated for Base Requirements for Fiscal Year 2016 by Subactivity Group**

In thousands of dollars

Subactivity group	O&M OCO appropriations designated for base requirements <sup>a</sup>	Obligations <sup>b</sup>		Total
		For base requirements	For OCO requirements	
Maneuver units	700,000	695,969	0	<b>695,969</b>
Land forces operations support	500,000	499,358	0	<b>499,358</b>
Force readiness operations support	500,000	500,000	0	<b>500,000</b>
Land forces depot maintenance	500,000	466,295	33,690	<b>499,985</b>
Combatant commands direct mission support	0	643 <sup>c</sup>	0	<b>643</b>
Other service support	0	4,007 <sup>c</sup>	0	<b>4,007</b>
<b>Total</b>	<b>2,200,000</b>	<b>2,166,271</b>	<b>33,690</b>	<b>2,199,961</b>

Source: GAO analysis of the explanatory statement accompanying the Consolidated Appropriations Act, 2016, and Army data. | GAO-18-202R

<sup>a</sup>Amounts for each subactivity group refer to amounts designated in Division C of the explanatory statement accompanying the Consolidated Appropriations Act, 2016.

<sup>b</sup>Obligations may exceed designated amounts as a result of reprogrammings.

<sup>c</sup>The Army reprogrammed O&M OCO amounts for base requirements to other subactivity groups to meet additional requirements during the fiscal year.

## Navy

The Navy reported obligating approximately \$2.11 billion, or about 96 percent of the \$2.2 billion of O&M OCO appropriations designated for base requirements in the explanatory statement. According to Navy documents, the Navy reduced the amount designated for its mission and other flight operations subactivity group because of adjustment to fuel prices. As a result, the Navy reported obligating less than the designated amount in the explanatory statement. In table 4, we provide additional information on the Navy's reported obligations of O&M OCO appropriations designated for base requirements by subactivity group. According to Navy officials, amounts designated for O&M base requirements are treated the same way as base appropriations for the purposes of execution.

**Table 4: Navy's Reported Obligations of Overseas Contingency Operations (OCO) Appropriations Designated for Operation and Maintenance (O&M) Base Requirements for Fiscal Year 2016 by Subactivity Group**

In thousands of dollars

Subactivity group	O&M OCO appropriations designated for base requirements <sup>a</sup>	Obligations
Mission and other flight operations	1,000,000	913,250
Mission and other ship operations	200,000	200,000
Ship depot maintenance	1,000,000	1,000,000
<b>Total</b>	<b>2,200,000</b>	<b>2,113,250</b>

Source: GAO analysis of the explanatory statement accompanying the Consolidated Appropriations Act, 2016, and Navy data. | GAO-18-202R

<sup>a</sup>Amounts for each subactivity group refer to amounts designated in Division C of the explanatory statement accompanying the Consolidated Appropriations Act, 2016.

## Marine Corps

The Marine Corps reported obligating approximately \$408.6 million, or about 97 percent of the \$420 million in O&M OCO appropriations designated for base requirements in the explanatory statement. In table 5, we provide additional information on the Marine Corps' reported obligations of O&M OCO appropriations designated for base requirements for fiscal year 2016 by subactivity group. According to Marine Corps officials, these amounts generally supported base operating support requirements and non-labor costs for operational forces.

**Table 5: Marine Corps' Reported Obligations of Operation and Maintenance (O&M) Overseas Contingency Operations (OCO) Appropriations Designated for Base Requirements for Fiscal Year 2016 by Subactivity Group**

In thousands of dollars

Subactivity group	O&M OCO appropriations designated for base requirements <sup>a</sup>	Obligations
Operational forces	210,000	201,151
Base operating support	210,000	207,466
<b>Total</b>	<b>420,000</b>	<b>408,617</b>

Source: GAO analysis of the explanatory statement accompanying the Consolidated Appropriations Act, 2016, and Marine Corps data. | GAO-18-202R

<sup>a</sup>Amounts for each subactivity group refer to amounts designated in Division C of the explanatory statement accompanying the Consolidated Appropriations Act, 2016.

## Air Force

The Air Force reported obligating approximately \$2.22 billion, or about 1 percent more than the \$2.2 billion of O&M OCO appropriations designated for base requirements in the explanatory statement. Of the \$2.2 billion, about \$2.15 billion was obligated for base requirements and about \$80 million was obligated for OCO requirements. According to Air Force officials, the Air Force used its reprogramming authority to realign O&M OCO funds designated for base requirements into several other subactivity groups, and also used base funds to support readiness requirements that were primarily funded with O&M OCO funds. As a result, the total reported obligations of OCO appropriations for O&M base requirements is higher than the total amount designated in the explanatory statement for designated subactivity groups. In table 6, we provide additional information on the Air Force's reported obligations of O&M OCO appropriations designated for base requirements by subactivity group. According to Air Force officials, Air Force fiscal guidance states that OCO funds designated for base requirements are to be used to help restore readiness, including for contractor logistics support, maintenance, and repairs.

**Table 6: Air Force’s Reported Obligations of Operation and Maintenance (O&M) Overseas Contingency Operations (OCO) Appropriations Designated for Base Requirements for Fiscal Year 2016 by Subactivity Group**

In thousands of dollars

Subactivity group	O&M OCO appropriations designated for base requirements <sup>a</sup>	Obligations <sup>b</sup>		Total
		For base requirements	For OCO requirements	
Primary combat forces	1,000,000	959,000	0	<b>959,000</b>
Combat enhancement forces	0	1,332	0	<b>1,332</b>
Air operations training	0	2,176	0	<b>2,176</b>
Facilities sustainment/restoration/modernization/demolition (air operations)	0	16,335	0	<b>16,335</b>
Base support (air operations)	0	60,886	0	<b>60,886</b>
Global C3I and early warning	0	200	0	<b>200</b>
Other combat operations support programs	0	839	0	<b>839</b>
Space control systems	0	4,000	0	<b>4,000</b>
Combatant commands direct mission support	0	16,271	0	<b>16,271</b>
Combatant commands core operations	0	697	0	<b>697</b>
Airlift operations	500,000	500,000	0	<b>500,000</b>
Mobilization preparedness	0	322	0	<b>332</b>
Depot maintenance (mobility operations)	500,000	499,072	0	<b>499,072</b>
Facilities sustainment/restoration/modernization/demolition (mobility operations)	0	2,506	0	<b>2,506</b>
Base support (accession training)	0	50	0	<b>50</b>
Flight training	0	11,471	0	<b>11,471</b>
Logistics operations	200,000	6,896	13,437	<b>20,333</b>
Facilities sustainment/restoration/modernization/demolition (logistics operations)	0	0	46	<b>46</b>
Base support (logistics operations)	0	25,000	627	<b>25,627</b>
Administration	0	5,977	0	<b>5,977</b>
Service-wide communications	0	0	37,211	<b>37,211</b>
Other service-wide activities	0	34,085	29,168	<b>63,253</b>
<b>Total</b>	<b>2,200,000</b>	<b>2,147,115</b>	<b>80,489</b>	<b>2,227,604</b>

Source: GAO analysis of the explanatory statement accompanying the Consolidated Appropriations Act, 2016, and Air Force data. | GAO-18-202R

<sup>a</sup>Amounts for each subactivity group refer to amounts designated in Division C of the explanatory statement accompanying the Consolidated Appropriations Act, 2016.

<sup>b</sup>Obligations may exceed designated amounts as a result of reprogrammings and other adjustments.



## Military Services' Reliance on OCO Funds to Support Base Requirements

The obligation of O&M OCO amounts designated for the military services' base requirements in the explanatory statement represented nearly half or more of total obligations for base requirements in some key subactivity groups in fiscal year 2016, and about 6 percent of the total O&M base obligations for each of the military services' active duty components, as shown in table 7.

**Table 7: Military Services' Reported Obligations of Designated Operation and Maintenance (O&M) Overseas Contingency Operations (OCO) Appropriations for Base Requirements as a Share of Total O&M Obligations for Base Requirements for Fiscal Year 2016 by Subactivity Group**

In thousands of dollars

		O&M OCO obligations for base requirements <sup>a</sup>	Total O&M obligations for base requirements	O&M OCO obligations for base requirements as a percentage of total O&M obligations for base requirements
<b>Army</b>	Maneuver units	695,969	1,287,750	54.05
	Land forces operations support	499,358	1,046,312	47.73
	Force readiness operations support	500,000	3,293,082	15.18
	Land forces depot maintenance	466,295	1,060,108	43.99
	Other Army O&M subactivity groups	4,650	28,181,235	0.02
	<b>Subtotal</b>	<b>2,166,271</b>	<b>34,868,485</b>	<b>6.21</b>
<b>Navy</b>	Mission and other flight operations	913,250	4,571,265	19.98
	Mission and other ship operations	200,000	3,859,131	5.18
	Ship depot maintenance	1,000,000	6,071,106	16.47
	Other Navy O&M subactivity groups	0	26,943,920	0.00
	<b>Subtotal</b>	<b>2,113,250</b>	<b>41,445,422</b>	<b>5.10</b>
<b>Marine Corps</b>	Operational forces	201,151	1,155,770	17.40
	Base operating support	207,466	2,114,247	9.81
	Other Marine Corps O&M subactivity groups	0	3,214,318	0.00
	<b>Subtotal</b>	<b>408,617</b>	<b>6,484,335</b>	<b>6.30</b>
<b>Air Force</b>	Primary combat forces	959,000	2,942,781	32.59
	Airlift operations	500,000	1,767,744	28.28
	Depot maintenance (mobility operations)	499,072	1,589,765	31.39
	Logistics operations	6,896	1,049,648	0.66
	Other Air Force O&M subactivity groups	182,147	30,086,550	0.61
	<b>Subtotal</b>	<b>2,147,115</b>	<b>37,436,488</b>	<b>5.74</b>
<b>All</b>	<b>Total<sup>b</sup></b>	<b>6,835,253</b>	<b>120,234,730</b>	<b>5.68</b>

Source: GAO analysis of military service data. | GAO-18-202R

<sup>a</sup>Amounts exclude obligations of funds designated for base requirements that were reported as obligated for OCO requirements.

<sup>b</sup>Total amounts are for active duty components and exclude reserve components, which were not provided O&M OCO funds for base requirements in the fiscal year 2016 appropriation act.

## **Enclosure IV: Military Services' Tracking of Obligations of Operation and Maintenance (O&M) Overseas Contingency Operations (OCO) Appropriations Designated for Base Requirements**

The military services generally track obligations of O&M OCO appropriations designated for base requirements separately in their respective financial accounting systems. The Army, the Air Force, and the Marine Corps use separate funding codes in their respective financial systems to allocate O&M OCO funds designated for base requirements to their subcomponents and track the obligation of those funds. The Navy allocates O&M OCO funds designated for base requirements separately to its subcomponents, but does not track the obligation of those funds in its financial system and instead assumes that all O&M OCO funds designated for base requirements are obligated. This enclosure outlines the different systems and procedures each of the military services uses to track these data, and discusses potential limitations as well as ways that the military services have addressed those potential limitations. As noted earlier, we took several steps to assess the reliability of the data the military services provided, including interviewing knowledgeable officials and comparing the data with budget justification and other data.

### **Army**

According to Army officials, the Army separately tracks obligations of O&M OCO funds designated for base requirements through its financial system using a specific funding code to understand how much base funding overall was available and used. Funding designated for different purposes, such as base funds, O&M OCO funds designated for base requirements, and funds for the European Reassurance Initiative, are issued separately, and can only be reported as obligated for the purpose issued. Officials also stated that some of the Army's commands still use legacy financial systems that do not allow O&M OCO funds designated for base requirements to be allocated separately from other funds. For those commands using these legacy systems, obligations are tracked separately using a functional cost accounting code. However, using a functional cost accounting code is less restrictive than the limits placed by its main financial system, and relies on the user to apply the code when appropriate. Army officials also stated that the Army does not issue OCO funds designated for base requirements to those commands using legacy financial systems unless it is absolutely necessary and the use of the code is subject to review to ensure that any data errors are identified.

### **Marine Corps**

According to Marine Corps officials, the Marine Corps separately tracks obligations of OCO appropriations designated for O&M base requirements within its financial system using a special interest code. In addition, Marine Corps command comptroller offices maintain an internal ledger of OCO allocations, including allocations of OCO appropriations designated for base requirements, to track obligations of these funds and ensure the command does not exceed the amount provided.

### **Navy**

According to Navy officials, the Navy separately provides O&M OCO appropriations designated for base requirements to its subcomponents using a unique code, but once O&M OCO for base activities amounts are provided the Navy does not separately track obligations of the O&M base and O&M OCO funds designated for base requirements in its financial system. Instead, the Navy assumes that, for subactivity groups receiving O&M OCO amounts for base requirements,

all O&M OCO funds designated for base requirements were obligated, with the remaining obligations for base requirements—as well as any over- or under-execution—attributed to base funds. Navy officials stated that they do not separately track obligations of the OCO funds designated for base requirements because of a number of challenges. Navy officials stated that separately tracking obligations would require a significant amount of work to transfer obligations to a new line of accounting, would introduce vulnerabilities to the audit trail, and create many more financial transactions that likely introduce the risk of errors in the ongoing Navy financial audit. Navy officials also stated that the Navy fleets that receive OCO funding designated for O&M base requirements will transition to a new financial system that can separately track and report obligations of OCO funds designated for O&M base requirements in fiscal year 2019.

### **Air Force**

According to Air Force officials, the Air Force separately tracks obligations of O&M OCO funds designated for base requirements within its financial system using a separate financial code. However, the officials stated that the process is dependent on individuals correctly applying the appropriate code when reporting the obligation. For example, Air Force officials identified two subactivity groups where obligations were incorrectly coded as O&M OCO obligations for base requirements. The officials also stated that some of the legacy systems do not allow the use of a separate financial code. In these cases, individuals manually transfer the obligations to the correct line of accounting. Officials further stated that both obligations reported in the Air Force's primary financial system as well as transfers to the correct line of accounting in legacy systems are subject to additional reviews and verification. In addition, obligations associated with the Air Force's flying hour program cannot be tracked using separate financial codes, such as the one used to track O&M OCO for base obligations, and have to be manually tracked through spreadsheets.

## Enclosure V: Comments from the Department of Defense



COMPTROLLER

(Program/Budget)

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

DEC 12 2017

Mr. John H. Pendleton  
Director, Defense Capabilities and Management Team  
U.S. Government Accountability Office  
441 G Street, NW,  
Washington, DC 20548

Dear Mr. Pendleton:

This is the Department of Defense (DoD) response to the GAO Draft Report, GAO-18-202R, 'DEFENSE BUDGET: Analysis of DoD's Obligation of Overseas Contingency Operation Funding for Operation and Maintenance Base Requirements,' dated November 3, 2017 (GAO Code 101972).

The Department of Defense does not have any comments to the draft report, but notes that several previously published reports pertaining to Overseas Contingency Operations (OCO) are discussed in the draft report. The reports referenced include Overseas Contingency Operations: OMB and DOD Should Revise the Criteria for Determining Eligible Costs and Identify the Costs Likely to Endure Long Term (GAO-17-68); Bulk Fuel: Actions Needed to Improve DOD's Fuel Consumption Budget Data (GAO-16-644); Defense Budget: DOD Needs to Improve Reporting of Operation and Maintenance Base Obligations (GAO-16-537); and, Defense Headquarters: Guidance Needed to Transition U.S. Central Command's Cost to the Base Budget (GAO-14-440). The Department's position on these reports has not changed.

My point of contact for any questions is Ms. Sara Russell at (703) 697-2559 or [sara.l.russell.civ@mail.mil](mailto:sara.l.russell.civ@mail.mil).

Sincerely,

Monique L. Dilworth  
Director for Operations



## **Text of Enclosure V: Comments from the Department of Defense**

Mr. John H. Pendleton  
Director, Defense Capabilities and Management Team  
U.S. Government Accountability Office 441 G Street, NW,  
Washington, DC 20548

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Sincerely,

Monique L. Dilworth ·  
Director for Operations  
(101972)