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United States  
Department of Defense



Report of Marine Corps Internal Controls  
Over Military Equipment Funds

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### **Acronyms**

DFAS	Defense Finance and Accounting Service
DoD FMR	DoD Financial Management Regulation
GAO	Government Accountability Office
DoD IG	Department of Defense Inspector General



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
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September 11, 2007

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION,  
TECHNOLOGY, AND LOGISTICS  
UNDER SECRETARY OF DEFENSE (COMPTROLLER)  
NAVAL INSPECTOR GENERAL

SUBJECT: Report on Marine Corps Internal Controls Over Military Equipment Funds  
(Report No. D-2007-122)

We are providing this report for information and use. We considered management comments on a draft of this report in preparing the final report.

Comments on the draft of this report conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are required.

We appreciate the courtesies extended to the staff. Questions should be directed to Ms. Alice Carey at (703) 325-6839 (DSN 221-6839) or Ms. Lidet Negash at (703) 325-5880 (DSN 221-5880). The team members are listed inside the back cover. See Appendix D for the report distribution.

By direction of the Deputy Inspector General for Auditing:

*Patricia A. Marsh*  
for Paul J. Granetto, CPA  
Assistant Inspector General and Director  
Defense Financial Auditing Service



## Department of Defense Office of Inspector General

Report No. D-2007-122

September 11, 2007

(Project No. D2006-D000FH-0167.000)

### Marine Corps Internal Controls Over Military Equipment Funds

#### Executive Summary

**Who Should Read This Report and Why?** Marine Corps personnel responsible for the financial management of military equipment should read this report. This report discusses the need for internal controls over military equipment funds to ensure compliance with DoD and Marine Corps regulations.

**Background.** The U.S. Marine Corps maintains ready expeditionary forces, sea-based and integrated air-ground units for contingency and combat operations, and the means to stabilize or contain international disturbances. The Marine Corps Systems Command mission is to serve as the Marine Corps Commandant's principal agent for acquisition and sustainment of systems and equipment used to accomplish warfighting missions.

An obligation is the dollar value of an order placed, contract awarded, service received, or similar transaction entered into during an accounting period that will require payment during the same or a future accounting period. A deobligation is an adjustment for differences between obligations previously recorded and actual payments to liquidate those obligations. The DoD Financial Management Regulation, volume 3, chapter 8, "Standards for Recording and Reviewing Commitments and Obligations," June 2005, and the Marine Corps Order P7300.21, "Marine Corps Financial Execution Standard Operating Procedure Manual," March 29, 2001, outlines the requirement to record and monitor funds in a timely manner. Additionally, the DoD Financial Management Regulation, volume 14, chapter 10, "Violations—Causes, Prevention and Correction," October 2004, identifies the most frequent causes of violations of the Antideficiency Act as: not following established internal controls and standard operating procedures; inadequate supervisory involvement or oversight; lack of appropriate training; and inadequate standard operating procedures and internal controls. Further, when obligations are not recorded in a timely manner, the official accounting record reflects an inflated availability of funds.

**Results.** The Marine Corps Systems Command internal controls over managing funds and retaining supporting documentation for obligations were generally adequate. The controls complied with Federal and Marine Corps guidance and ensured the proper use of funds and availability of funds. The Marine Corps Systems Command internal controls over recording and monitoring commitments and obligations were inadequate because its procedures did not ensure compliance with DoD and Marine Corps criteria. By not complying with DoD and Marine Corps criteria, the Marine Corps Systems Command could not ensure that the funds for military equipment programs were accurately recorded and properly monitored. Ineffective internal controls may also increase the risk of Antideficiency Act violations.

The Commandant of the Marine Corps should revise the Marine Corps Order P7300.21 to include the DoD Financial Management Regulation, volume 3, chapter 8 requirement

that funds should be obligated no later than 10 calendar days after an obligation has been incurred and within the same month for obligations of \$100,000 or more. The Commander, Marine Corps Systems Command should establish and implement standard operating procedures and controls to ensure that military equipment funds are obligated and deobligated in a timely manner, that documentation is retained, and that the triannual review process is implemented. See the Finding section of the report for detailed recommendations.

**Management Comments and Audit Response.** The Department of the Navy, Office of the Assistant Secretary (Financial Management and Comptroller), Director of the Office of Financial Operations, responding for the Commandant of the Marine Corps and Commander, Marine Corps Systems Command, concurred with all the recommendations. See the Finding section of the report for a discussion of management comments and the Management Comments section of the report for the complete text of the comments.

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## Background

The U.S. Marine Corps maintains ready expeditionary forces, sea-based and integrated air-ground units for contingency and combat operations, and the means to stabilize or contain international disturbances. As of FY 2006, the Marine Corps had approximately 600 military equipment programs or subprograms. The Marine Corps Systems Command (Systems Command) mission is to serve as the Marine Corps Commandant's principal agent for acquisition and sustainment of systems and equipment used to accomplish warfighting missions. During FYs 2003-2006, the Systems Command obligated approximately \$12 billion in procurement funds.

**Internal Control Guidance.** The Federal Managers' Financial Integrity Act of 1982 requires each executive agency to establish internal controls that provide reasonable assurance that:

- obligations and costs are in compliance with applicable law;
- funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and
- revenues and expenditures applicable to agency operations are properly recorded and accounted for, to permit the preparation of accounts and reliable financial and statistical reports, and to maintain accountability over the assets.

The Office of Management and Budget Circular A-123, "Management's Responsibility for Internal Control," December 21, 2004, provides guidance regarding how to meet the requirements of the Federal Managers' Financial Integrity Act. The circular defines internal controls as an integral component of an organization's management that provides reasonable assurance to ensure the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. Management is responsible for developing and maintaining effective internal controls. Effective internal controls provide assurance that any significant weaknesses in the design or operation of internal controls, which could adversely affect the agency's ability to meet its objectives, would be prevented or detected in a timely manner.

**Obligations and Deobligations.** An obligation is a firm, legally binding agreement between parties for the acquisition of goods and services. It is the dollar value of an order placed, contract awarded, service received, or similar transaction entered into during an accounting period that will require payment during the same or a future accounting period. A deobligation is an adjustment for differences between obligations previously recorded and actual payments to liquidate those obligations. A deobligation can be recorded in the accounting system when a deobligating document is provided.

**DoD Financial Management Regulation.** The DoD Financial Management Regulation (DoD FMR) volume 3, chapter 8, "Standards for Recording and Reviewing Commitments and Obligations," June 2005, provides guidance on

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determining the accounting periods in which commitments and obligations should be recorded. The regulation states that timely and accurate recording of obligations facilitates the disbursing officer's ability to verify fund availability before authorizing payments. The regulation requires that the responsible accounting office record the obligation within 10 calendar days of being incurred. The office that incurs the obligation should provide a copy of the obligating document to the office responsible for recording the obligation within 6 calendar days. The responsible recording office is then required to record the obligation within 3 calendar days of receiving the obligating document. The regulation also requires that obligations of \$100,000 or more per fund citation or accounting line on the obligation document should be recorded and included in the official accounting records in the same month in which the obligation is incurred.

The DoD FMR, volume 14, chapter 10, "Violations—Causes, Prevention and Correction," October 2004, identifies the most frequent causes of violations of the Antideficiency Act as: not following established internal controls and standard operating procedures; inadequate supervisory involvement or oversight; lack of appropriate training; and inadequate standard operating procedures and internal controls. Furthermore, the regulation identified exceeding the availability of funds as a common Antideficiency Act violation. When obligations are not recorded in a timely manner, the official accounting record reflects an inflated availability of funds.

**Marine Corps Order.** The Marine Corps Order P7300.21, "Marine Corps Financial Execution Standard Operating Procedure Manual," March 29, 2001, provides comptrollers with standard operating procedures related to the preparation, recording, reconciling, reporting and maintenance of financial records through all stages of funds management. The Marine Corps P7300.21 states that obligations requiring manual input by fund managers into the accounting system must be recorded within 3 working days.

## Objectives

Our overall audit objective was to evaluate the internal controls over the Marine Corps funds used to acquire or modify military equipment after September 30, 2002. Specifically, we examined whether the Marine Corps process for obligating funds for military equipment met Federal, DoD, and Marine Corps requirements. We also examined whether funds were properly used and tracked.

The initial announcement letter for this audit stated that our objective was to evaluate internal controls over DoD acquisition of military equipment, not specifying the Service. Furthermore, the objective included examining the DoD processes for obligating and disbursing funds. To ensure adequate coverage and timely issuance of the audit report, we modified our audit objectives to evaluate the Marine Corps internal controls over obligations. As a result, we reannounced the audit as the "Marine Corps Internal Controls over the Acquisition of Military Equipment" on November 15, 2006. See Appendix A for a discussion of the scope and methodology and prior coverage related to the audit objectives. Appendix B is a glossary of technical terms used in this report.

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## **Review of Internal Controls**

We identified internal control weaknesses for the Systems Command as defined by DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," January 4, 2006. The Systems Command did not have adequate internal controls over committing and obligating military equipment funds. Recommendations 2.a. and 2.b., if implemented, will improve the Systems Command controls over military equipment funds to ensure compliance with DoD and Marine Corps guidance. We will provide a copy of the report to the senior official responsible for internal controls in the Marine Corps.

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# Adequacy of the Marine Corps Systems Command Internal Controls over Military Equipment Funds

The Systems Command internal controls over managing funds and retaining supporting documentation for obligations were generally adequate. However, the Systems Command internal controls over recording and monitoring commitments and obligations were inadequate because the Systems Command procedures did not ensure compliance with DoD and Marine Corps financial management criteria. Systems Command did not comply with DoD and Marine Corps criteria and could not ensure that the funds for military equipment programs were accurately recorded and properly monitored. Ineffective internal controls may also increase the risk of Antideficiency Act violations.

## Systems Command Obligations

We randomly selected 14 military equipment programs from the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics, Property and Equipment Policy Office's universe of Marine Corps military equipment programs. For those 14 military equipment programs, we reviewed 115 obligations recorded between October 2002 and June 2006. Specifically, we reviewed 100 obligations valued at approximately \$60.3 million, and 15 deobligations valued at approximately \$10.5 million. See Appendix C for the obligation sample and issues identified during the audit.

## Funds Management for Obligations

The Systems Command generally had effective internal controls over managing funds for obligations. The Systems Command internal controls generally ensured the proper use of funds and the availability of funds as required by Federal and Marine Corps guidance.

**Proper Use of Funds.** For 99 obligations, valued at approximately \$60.3 million, and 14 deobligations, valued at approximately \$10.5 million, the Systems Command generally ensured that its use of funds complied with appropriation restrictions. The Systems Command controls ensured that it used procurement funds to acquire major items such as tanks, radios, and guided missile equipment, in accordance with the Marine Corps Order P7300.21. Because Systems Command did not provide funding and obligating documentation, we were unable to determine whether two funding actions (valued at less than \$1,000) complied with appropriation restrictions.

**Availability of Funds.** For 95 obligations, valued at approximately \$60 million, and 14 deobligations, valued at approximately \$10.5 million, Systems Command controls ensured that funding documents were certified for fund availability.

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According to Section 1341, United States Code, title 31, “Limitations on Expending and Obligating Amounts,” January 19, 2004, an officer or employee of the U.S. Government may not make or authorize an expenditure or obligation that exceeds the amount available in an appropriation. For five obligations valued at \$334,158, and one deobligation valued at \$79.90, Systems Command did not have funding documents to support the certification of fund availability.

## **Retaining Obligating Documentation**

The Systems Command generally had effective internal controls over retaining documentation to support obligations. As required by Section 1501, United States Code, title 31, “Documentary Evidence Requirement for Government Obligation,” January 19, 2004, an amount should only be recorded as an obligation when supported with evidence of a written binding agreement. Further, the DoD FMR, volume 4, chapter 6, “Property, Plant, and Equipment,” July 2006, states that DoD Components are required to retain source documents, such as sales and procurement contracts, in a readily available location during the applicable retention period.

Of the 115 obligations we reviewed, the Systems Command properly retained supporting obligating documents for 96 obligations, valued at approximately \$60.2 million, and 14 deobligations, valued at approximately \$10.5 million. However, for four obligations, valued at \$110,110.46, Systems Command did not provide supporting obligating documents. For instance, the Systems Command did not provide documentation to support an obligation valued at \$97,070 for contract support for the Radio Reconnaissance Equipment Program. Additionally, the Systems Command did not provide supporting obligating documents for one deobligation valued at \$79.90.

## **Recording Obligations**

The Systems Command did not always record obligations for military equipment in accordance with the DoD FMR, volume 3, chapter 8. The DoD FMR requires the following:

- that obligations and deobligations be recorded within 10 calendar days of being incurred, and
- that obligations and deobligations of \$100,000 or more per fund citation or accounting line on the obligating document be recorded in the official accounting records in the same month that they are incurred.

The Marine Corps Order P7300.21 states that upon the receipt of an obligating document, the fund manager should record the obligation in the accounting system within 3 working days. The Marine Corps Order P7300.21 does not address the DoD FMR, volume 3, chapter 8, requirement that after an obligation is incurred, the responsible office should record the obligation within 10 calendar days and within the same month for obligations greater than \$100,000. The

Commandant of the Marine Corps should revise the Marine Corps Order P7300.21 to incorporate the DoD FMR, volume 3, chapter 8, requirement for recording obligations. Because the Marine Corps is in the process of updating the Marine Corps Order P7300.21, we have already notified the Marine Corps of this pending recommendation. The Marine Corps representatives agreed to address the DoD FMR requirements in an updated version of the Marine Corps Order P7300.21 that will be issued by December 2007.

Of the 115 obligations we reviewed, the Systems Command made 62 obligations, valued at approximately \$33.9 million, and 10 deobligations, valued at approximately \$9.1 million, in a timely manner. However, the Systems Command personnel did not record 37 obligations in a timely manner because they did not always receive the obligating documents on time. We were unable to determine whether another five obligations, valued at \$170,110.46, and one deobligation, valued at approximately \$79.90, were recorded in a timely manner because the Systems Command did not provide us with the supporting obligating documents or the accounting transaction reports.

## 10-Day Rule

**Obligations.** For 33 of the 37 untimely obligations, the Systems Command recorded the obligations, valued at approximately \$26.2 million, more than 10 days after incurred. The following table shows that the Systems Command did not record the 33 obligations in a timely manner.

<b>Recording Obligations</b>		
<b># of Days</b>	<b># Obligations</b>	<b>Value of Obligations</b>
11-30 days	8	\$3,927,149.00
31-90 days	16	\$15,725,399.81
91-150 days	5	\$4,457,663.00
151-627 days	4	\$2,070,199.97
<b>Total</b>	<b>33</b>	<b>\$26,180,411.78</b>

For example, the Systems Command did not timely record an obligation of \$16,365 when it acquired waveform generators for the Communication Emitter Sensing and Attacking System through a contract awarded by the Systems Command Contracts Directorate. The Systems Command incurred the obligation on December 13, 2003, but did not record the obligation until August 31, 2005, 627 days after incurring the obligation. Because the Systems Command did not record obligations in a timely manner, it risked violating the Antideficiency Act. In addition, the Systems Command risked understating its obligations on the financial statements, which could prevent the Marine Corps from receiving a favorable audit opinion.

**Deobligations.** For 4 of the 37 untimely obligations, the Systems Command recorded deobligations, valued at approximately \$1.3 million, more than 10 days after they were incurred. Because the Systems Command did not deobligate

funds in a timely manner, the accounting system did not accurately reflect the amount of available funds. The following table shows that the Systems Command did not record the four deobligations in a timely manner.

<b>Recording Deobligations</b>		
<b># of Days</b>	<b># Deobligations</b>	<b>Value of Deobligations</b>
14 days	1	\$49,000.00
36 days	1	\$1,297,470.36
98 days	1	\$122.64
247 days	1	\$433.94
<b>Total</b>	<b>4</b>	<b>\$1,347,026.94</b>

**Funds Disbursed Before Obligated.** For 2 of the 37 untimely obligations, Defense Finance and Accounting Service (DFAS) recorded disbursements valued at \$13,787 before the Systems Command recorded the corresponding obligations. For example, DFAS recorded a disbursement for \$1,635 on January 1, 2004, for the Field Food Service System program. However, the Systems Command did not record the obligation until February 3, 2004. Also, DFAS recorded two disbursements totaling \$12,152 for the Radio Reconnaissance Equipment Program on February 6, 2003, but the Systems Command did not record the corresponding obligation until February 21, 2003.

Timely and accurate recording of obligations facilitate the disbursing officer's ability to verify fund availability before authorizing payment. The DoD FMR, volume 14, chapter 10, states that when obligations are not recorded, the official accounting system reflects an inflated availability of funds. As a result, Antideficiency Act violations can easily occur, because personnel rely on the accounting system to certify fund availability. The regulation further states that this potential violation is commonly discovered when an unmatched disbursement is recorded in the accounting system. The Systems Command risked causing Antideficiency Act violations, because the official accounting system did not reflect the correct amount of funds available for obligation.

According to the Marine Corps Order P7300.21, it is the fund manager's responsibility to ensure that each source document is recorded in the accounting system through each step of the transaction cycle (commitment, obligation, expense, and liquidation). Furthermore, the DoD FMR, volume 3, chapter 8, states that the fund holder and supporting accounting office should implement procedures to ensure that obligations are promptly recorded in the accounting system.

The Deputy Commander, Resource Management (Comptroller Office) provides both financial support and workforce management and development within Systems Command. The Comptroller Office provides financial policy, advice, and services to ensure that program resources are properly and efficiently executed. A Comptroller Office representative stated that the individuals involved in recording obligations include fund managers, project managers, procurement contracting officers, administrative contracting officers, and

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vendors. The Comptroller Office representative explained that they can only control the fund manager and project manager portions of the process. To improve the timeliness of recording obligations incurred by Marine Corps Contracting Offices, the Systems Command has established system interfaces between the Marine Corps Standard Accounting, Budget and Reporting System and various internal systems. However, the Systems Command does not currently have interfaces between the Standard Accounting, Budget and Reporting System and non-Marine Corps systems.

The representative stated that several non-Marine Corps contracting offices do not provide obligating documentation in a timely manner. Additionally, the representative stated that in some instances the Systems Command may not receive the obligating document until receipt of the invoice. According to the DoD FMR, the office that incurs the obligation should provide the obligating document to the office responsible for recording the obligation within 6 calendar days. Despite noncompliance with the DoD FMR by non-Marine Corps organizations, the Systems Command is still responsible for monitoring funds to ensure that transactions are recorded in the accounting system in a timely manner. Therefore, the Systems Command should establish and implement procedures to ensure that funds are timely obligated and deobligated in the accounting system as required by the DoD FMR, volume 3, chapter 8. These procedures should include prompt follow-up with organizations to obtain the obligating documents. If unsuccessful in obtaining the obligating documents in a timely manner, the Systems Command should retain documentation to support that the office incurring the obligation did not timely provide the obligating document.

### **Obligations Greater Than \$100,000**

Of the 115 obligations reviewed, 39 obligations, valued at approximately \$57.2 million, and 4 deobligations, valued at approximately \$8.8 million, were each valued greater than \$100,000 and should have been recorded in the month incurred, as required by the DoD FMR, volume 3, chapter 8. Of these 43 transactions, the Systems Command did not record 17 obligations valued at \$28,606,486 and 2 deobligations valued at \$1,569,158 in the month incurred.

In one case, the Systems Command did not record an obligation valued at \$2,013,629, until 7 months after incurring the obligation. The Systems Command incurred this obligation on December 20, 2002, for the High Mobility Artillery Rocket System. However, the Systems Command did not obligate the funds until July 16, 2003. By not obligating funds in the same month incurred, the Systems Command increased the risk of Antideficiency Act violations.

### **Monitoring Controls**

The Systems Command internal controls over monitoring commitments were inadequate. Specifically, the Systems Command controls did not ensure the implementation of a triannual review process. This resulted in the Systems Command recording obligations up to 2 years after actually incurring the

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obligation and DFAS recording disbursements before the Systems Command obligated funds in the accounting system.

The DoD FMR, volume 3, chapter 8, states that fund holders, with assistance from supporting accounting offices, should review commitment and obligation transactions for timeliness, accuracy, and completeness during each of the 4-month periods ending on January 31, May 31, and September 30 of each fiscal year, a process known as the “triannual review.” The regulation also states that the fund holder is required to maintain documentation to support the review for 24 months, to allow organizations to verify that the reviews were accomplished as required. In its implementation of these requirements, the Marine Corps Order P7300.21 further requires that fund managers perform a validation of all outstanding transactions to confirm that transactions in the accounting system accurately reflect the source documents.

We requested that the Comptroller Office provide the triannual review documentation for September 30, 2005 and September 30, 2006. A Comptroller Office representative indicated that documentation may not be available to support the September 30, 2005 review. We later learned that the Comptroller Office could not provide supporting documentation for the reviews conducted in 2005 or 2006. Consequently, we concluded that the Systems Command did not implement the triannual review process as required by the DoD FMR, volume 3, chapter 8, and Marine Corps Order P7300.21.

Monitoring controls such as a triannual review process could have improved the Systems Command management of the 37 untimely obligations. Furthermore, a review process would increase the likelihood that the Systems Command would record obligations accurately and in a timely manner, thus reducing the risk of potential Antideficiency Act violations. The Systems Command should implement a triannual review process to ensure that funds are reviewed for timeliness, accuracy, completeness, and that documentation is retained in accordance with the DoD FMR, volume 3, chapter 8, and Marine Corps Order P7300.21.

## **Procedures for Implementing Criteria**

The Systems Command did not establish and implement standard operating procedures to ensure the implementation of controls that would satisfy the DoD FMR and Marine Corps Order P7300.21 requirements. The DoD FMR, volume 14, chapter 10, identifies inadequate standard operating procedures and internal controls as being one of the most frequent causes of violations of the Antideficiency Act.

The Systems Command did not always comply with the requirement to obligate funds in a timely manner and conduct required triannual reviews. As mentioned earlier, when obligations are not recorded, the official accounting records can reflect an inflated availability of funds. Standard operating procedures to require that the Systems Command conduct triannual reviews, once established and implemented, should improve the monitoring controls over commitment and

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obligations. Further, such procedures would enhance the controls over obligated funds and help to ensure that funds are timely obligated, thereby limiting the risk of funds being disbursed before obligation and of Antideficiency Act violations. The Systems Command should establish and implement procedures and controls that ensure military equipment funds are obligated in the accounting system and that triannual reviews are conducted.

Although the number and value of the sampled supporting documents not retained were minimal, the lack of supporting documentation affected the Systems Command's ability to fully support funds management and the recording of obligations and deobligations for military equipment. To obtain a favorable opinion on the Marine Corps financial statements, the Systems Command must be able to support the value of military equipment with source documents that reflect all transactions affecting the Component's investment in property, plant, and equipment. Developing standard operating procedures will enhance the controls over retaining source documentation, ensuring full compliance with retention requirements. The Systems Command should establish and implement standard operating procedures and controls that ensure that source documents are retained in accordance with the DoD FMR, volume 4, chapter 6.

## Conclusion

Because it did not comply with DoD and Marine Corps criteria, the Systems Command could not ensure that funds for military equipment programs were accurately recorded and properly monitored. Also, ineffective standard operating procedures and internal controls may increase the risk of Antideficiency Act violations.

Because of the inadequate procedures and controls, DFAS recorded disbursements before the Systems Command recorded corresponding obligations, and the official accounting records did not reflect an accurate availability of military equipment funds. When the official accounting records reflect an inflated availability of funds, the Systems Command increases the risk of Antideficiency Act violations.

Establishing and implementing standard operating procedures and internal controls will increase the Systems Command's ability to manage military equipment funds and may decrease the risk of Antideficiency Act violations.

## Recommendations, Management Comments, and Audit Response

**1. We recommend that the Commandant of the Marine Corps revise the Marine Corps Order P7300.21 to include the DoD Financial Management Regulation, volume 3, chapter 8 requirement that funds be obligated and deobligated no more than 10 calendar days after being incurred and within the same month incurred for obligations of \$100,000 or more.**

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**Management Comments.** The Department of the Navy, Office of the Assistant Secretary (Financial Management and Comptroller), Director of the Office of Financial Operations, responding for the Commandant of the Marine Corps, concurred with the recommendation. The Director stated that the Marine Corps Order P7300.21 was being revised to incorporate the DoD FMR, volume 3, chapter 8 requirement to timely record transactions in the accounting system. He stated that the revision will address the requirements to record an obligation within 10 calendar days of the date it was incurred and to record obligations of \$100,000 or more within the same month incurred. The Director stated that he expected to issue the revised Marine Corps Order P7300.21 by December 31, 2007.

**2. We recommend that the Commander, Marine Corps Systems Command:**

**a. Establish and implement standard operating procedures and controls which ensure that military equipment funds are obligated and deobligated in a timely manner, and that documentation is retained as required by the DoD Financial Management Regulation.**

**Management Comments.** The Department of the Navy, Office of the Assistant Secretary (Financial Management and Comptroller), Director of the Office of Financial Operations, responding for the Commander, Marine Corps Systems Command, concurred with the recommendation. The Director stated that there are processes in place to comply with the DoD FMR requirements. The Director noted that a majority of the obligations the auditors reviewed were incurred by non-Marine Corps organizations. Further, the Director stated that the Marine Corps Systems Command does not have control over obligations incurred by other Services on behalf of the Marine Corps. The Director indicated that the Marine Corps Systems Command has controls to safeguard against violations of the Antideficiency Act, such as recording administrative reservations of funds in the accounting system.

**Audit Response.** The Director comments were responsive. However, in accordance with the Marine Corps Order P7300.21, even though another organization incurred the obligation, the Marine Corps Systems Command is responsible for monitoring funds to ensure that transactions are recorded in the accounting system in a timely manner. As the Director stated, there are processes in place to comply with the DoD FMR. These processes should include monitoring procedures that ensure the Marine Corps Systems Command records funds in a timely manner. Specifically, such procedures should ensure that fund managers follow up with the organizations incurring the obligation and retain supporting documentation to verify when those organizations do not provide obligating documents in a timely manner.

**b. Implement the triannual review process to ensure that funds are reviewed for timeliness, accuracy, completeness, and that documentation is retained in accordance with the DoD Financial Management Regulation, volume 3, chapter 8, and the Marine Corps Order P7300.21.**

**Management Comments.** The Department of the Navy, Office of the Assistant Secretary (Financial Management and Comptroller), Director of the

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Office of Financial Operations, responding for the Commander, Marine Corps Systems Command, concurred with the recommendation. The Director stated that the Marine Corps can increase the effectiveness of its triannual review process through improved documentation and follow-up on dormant obligations. The Director stated that process improvements over the triannual review process will be in place by October 21, 2007.

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## Appendix A. Scope and Methodology

We reviewed the Marine Corps process for obligating funds for military equipment acquired or modified after September 30, 2002. Specifically, we visited the Systems Command Headquarters in Quantico, Virginia. We performed site visits and corresponded with the Systems Command personnel from June 2006 through May 2007. At the Systems Command Headquarters, we interviewed personnel from the Comptroller's Office, Supply Office, and select program offices to learn the Marine Corps process for obligating funds for military equipment programs. We developed an obligation review list, with questions based on criteria from the DoD FMR and Marine Corps Order P7300.21. We compared the Marine Corps process against the relevant criteria to identify weaknesses in internal controls.

In May 2006 we obtained the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics, Property and Equipment Policy Office universe of military equipment programs. The universe contained 51 Systems Command military equipment programs acquired or modified after September 30, 2002. Of the 51 programs, we selected 14 Systems Command military equipment programs.

For each program, we judgmentally selected five procurement fund obligations processed between October 2002 and June 2006. The sample totaled 70 obligations that were valued at approximately \$48 million. However, after reviewing the supporting documents, we determined that 15 of the 70 obligations were supported with multiple obligating documents. The multiple obligating documents were amendments to increase or decrease obligated funds. As a result, the total number of obligations reviewed increased to 115 obligations. Specifically, we reviewed 100 obligations valued at approximately \$60.3 million, and 15 deobligations valued at approximately \$10.5 million. We requested and reviewed the supporting documentation for each obligation selected. Supporting documentation included:

- DD Form 448, "Military Interdepartmental Purchase Request;"
- DD Form 448-2, "Acceptance of Military Interdepartmental Purchase Request;"
- Navy Comptroller Form 2275, "Order for Work or Services;"
- Navy Comptroller Form 2276, "Request For Contractual Procurement;"
- DD 1155, "Order for Supplies or Services;"
- Standard Form 1449 "Solicitation/Contract/Order for Commercial Items;"
- Standard Form 30 "Amendment of Solicitation/Modification of Contract;"
- Standard Form 26 "Award/Contract;"

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- DD Form 1149 “Requisition and Invoice/Shipping Document;”
  - travel authorizations; and
  - Standard Accounting, Budgeting and Reporting System printouts.

We performed this audit from May 2006 through May 2007 in accordance with generally accepted government auditing standards.

**Use of Computer-Processed Data.** To achieve the audit objective, the Systems Command personnel provided computer-processed data extracted from Standard Accounting, Budgeting and Reporting System. We did not perform a formal reliability assessment of the computer-processed data. We did not find errors between the computer-processed data and source documents that would preclude use of the computer-processed data to meet the audit objective or that would change conclusions in this report.

**Government Accountability Office High-Risk Area.** The Government Accountability Office has identified several high-risk areas in DoD. This report provides coverage of a Defense financial management high-risk area.

## Prior Coverage

During the last 5 years, the Government Accountability Office (GAO) and the Department of Defense Inspector General (DoD IG) have issued 4 reports discussing internal controls over obligations. 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>.

## GAO

GAO Report No. 03-275, “Defense Budget: Improved Reviews Needed to Ensure Better Management of Obligated Funds,” January 2003

GAO Report No. 02-635, “DoD Contract Management: Overpayments Continue and Management and Accounting Issues Remain,” May 2002

## DoD IG

DoD IG Report No. D-2006-102, “Marine Corps Governmental Purchases” July 2006

DoD IG Report No. D-2003-095, “Accounting for Reimbursable Work Orders at Defense Finance and Accounting Service Charleston,” June 2003

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## Appendix B. Glossary

**Antideficiency Act.** The Antideficiency Act is legislation enacted by Congress to: prevent the incurring of obligations or the making of expenditures (outlays) in excess of amounts available in appropriations or funds; to fix responsibility within an agency for the creation of any obligation or the making of any expenditure in excess of apportionment or reappropriation or in excess of other subdivisions established pursuant to sections 1341 and 1517 of 31 United States Code; and to assist in bringing about the most effective and economical use of appropriations and funds.

**Appropriation.** An appropriation is statutory authority to incur obligations and to make payments out of the U.S. Treasury for specified purposes.

**Commitment.** A commitment is an administrative reservation of funds based on firm procurement requests, unaccepted customer orders, directives, and equivalent instruments.

**DD Form 1149 Requisition and Invoice/Shipping Document.** The DD Form 1149 is used to initiate the requisition of materials or services from Federal and non-Federal sources. This form is used for commitment purposes.

**Disbursement.** A disbursement is a payment to an individual or organization for goods furnished or services rendered.

**Military Equipment.** Military Equipment is defined as weapon systems that can be used directly by the Armed Forces to carry out battlefield missions. Military equipment: has an expected useful life of two or more years; is not intended for sale in the ordinary course of business; does not ordinarily lose its identity or become a component part of another article; is available for the use of the reporting entity for its intended purpose.

**Military Interdepartmental Purchase Request.** A military interdepartmental purchase request is an order issued by one military service to another to procure services, supplies, or equipment for the requiring service.

**Navy Comptroller Form 2275, "Order for Work and Services."** The Navy Comptroller Form 2275 is used to request reimbursable work or services from any components within the Department of the Navy. The form authorizes funds for an external command to perform work or services for the requesting command. Prior to the acceptance by the performing activity, the Navy Comptroller Form 2275 is considered a commitment document to the requestor. Once signed and accepted by the performing activity, the form becomes the obligating document.

**Navy Comptroller Form 2276, "Request for Contractual Procurement."** The Navy Comptroller Form 2276 is used to request a contracting action for work or services that are known and specific in nature and must be procured by contract (e.g., large computer buys, laundry service contracts). This form can be a commitment or an obligation document, depending on whether funds are direct-cited or are accepted on a cost-reimbursement basis.

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**Obligations Incurred.** An obligation is a firm, legally, binding agreement between parties for the acquisition of goods and services. It is the dollar value of an order placed, contract awarded, service received, or similar transaction entered into during an accounting period that will require payment during the same or a future accounting period. An obligation may be deobligated from the accounting system when a deobligating document is provided. A deobligation is an adjustment for differences between obligations previously recorded and actual payments to liquidate those obligations.

**Standard Accounting, Budget and Reporting System.** Standard Accounting, Budget and Reporting System is the official accounting system for the U.S. Marine Corps.

**Triannual Review Process.** A triannual review process is the review of commitment and obligation transactions for timeliness, accuracy, and completeness during each of the 4-month periods ending on January 31, May 31, and September 30 of each fiscal year. The requirement for reviews of commitments and obligations applies to all DoD appropriations and funds. Supporting documentation should be retained for a period of 24-months following the completion of the triannual review.

## Appendix C. Obligation Sample and Results

(An obligation can have more than one problem.)

Standard Document Number	Obligation Number	AMOUNT*	Recorded between 11 and 30 days	Recorded between 31 and 90 days	Recorded between 91 and 627 days	No obligating document	Not Obligated in the Same Month	Disbursed before obligated
M9545003RC32051	1	\$957,134.00						
	2	\$3,657,273.00			X		X	
	3	\$2,013,629.00			X		X	
	4	(\$957,134.00)						
	5	\$957,134.00						
	6	\$44,010.00						
	7	(\$122.64)			X			
M9545003RC32056	1	\$668,788.76						
	2	(\$668,788.76)						
	3	\$668,788.76						
	4	\$5.92		X				
	5	\$5.97			X			
	6	(\$433.94)			X			
M9545005MP52172	1	\$77,000.00			X			
M9545060651071	1	\$400.32						
M9545060651046	1	\$6,588.00						
M9545005MP52187	1	\$6,000.00						
	2	(\$192.00)						
M9545052081831	1	\$569.16						
M9545004RC42005	1	\$740,335.00		X			X	
	2	\$20,000.00						
	3	\$14,564.00		X				
	4	(\$5,115.00)						
M9545004RC42127	1	\$51,522.88		X				

\* This column identifies deobligations with parentheses.

Standard Document Number	Obligation Number	AMOUNT*	Recorded between 11 and 30 days	Recorded between 31 and 90 days	Recorded between 91 and 627 days	No obligating document	Not Obligated in the Same Month	Disbursed before obligated
M9545003RC32094	1	\$191,888.91						
M9545006WR64233	1	\$420,000.00						
	2	\$1,375,000.00						
M9545005RC02767	1	\$300,000.00						
M9545005WR54324	1	\$50,000.00						
M9545004MP44041	1	\$400,000.00		X			X	
M9545040624140	1	\$22,509.00						
M9545003RC36338	1	\$5,720.00		X				
M9545004MP36385	1	\$2,061.00			X			X
M9545060381011	1	\$120,750.00						
M9545060381012	1	\$573,562.50						
	2	(\$271,687.50)					X	
M9545061641351	1	\$64,548.00						
M9545005RC6415	1	\$4,994,277.93						
	2	\$5,726.07						
	3	\$8,765,652.00						
	4	(\$374,592.00)						
	5	\$367,670.10						
M6785406TOE2409	1	\$3,355.39						
M9545003MP36151	1	\$37,300.00						
M9545003MP36296	1	\$12,500.00				X		
M6785405TOE3283	1	\$3,638.31						
M9545004MP45045	1	\$2,796,391.00						
M9545005RC02570	1	\$52,788.00						

\* This column identifies deobligations with parentheses.

Standard Document Number	Obligation Number	AMOUNT*	Recorded between 11 and 30 days	Recorded between 31 and 90 days	Recorded between 91 and 627 days	No obligating document	Not Obligated in the Same Month	Disbursed before obligated
M9545004RC45069	1	\$188,235.00						
	2	\$80,672.00						
	3	\$13,594.00						
	4	\$1,680.00						
	5	\$18,884.00						
	6	\$9,971.00						
	7	\$23,264.00						
M9545004RC45069	8	\$6,232.00						
	9	\$50,420.00						
	10	\$14,937.00						
	11	14937.00						
	12	(14937.00)						
	13	\$14,471.23						
M9545004RC45068	1	\$9,020.00						
M9545006WR55158	1	\$5,684.00						
M9545003RC34469	1	\$60,000.00						
M9545004RC34735	1	\$16,365.00			X			
M54005WR54177	1	\$434,000.00	X					
M9545006RC64017	1	\$145,645.00						
M9545006RC64087	1	\$399,999.69					X	
M9545006RC64036	1	\$1,324,400.00	X				X	
M9545006RC64059	1	\$78,118.00						
M9545005RC54059	1	\$112,000.00		X			X	
M9545004RC44291	1	\$30,278.00						
M9545003WR34201	1	\$97,070.00				X		X
M9545005RC01766	1	\$12,900.00						
M9545005WR54161	1	\$764,100.00						

\* This column identifies deobligations with parentheses.

Standard Document Number	Obligation Number	AMOUNT*	Recorded between 11 and 30 days	Recorded between 31 and 90 days	Recorded between 91 and 627 days	No obligating document	Not Obligated in the Same Month	Disbursed before obligated
M9545005RC54744	1	\$936,760.00						
M9545005RC54744	1	\$19,976.00						
M9545004RC44106	1	\$106,173.00		X			X	
	2	\$2,083,245.00		X			X	
M9545005RC54089	1	\$606,984.39		X			X	
M9545005RC54808	1	\$8,859,411.00		X			X	
	2	(\$1,297,470.36)		X			X	
	3	(\$270.00)						
	4	(\$6,807,959.03)						
	5	\$624,000.00			X		X	
M9545004RC44072	1	\$24,688.00						
M9545005RC54796	1	\$39,908.08						
	2	\$145,000.00	X				X	
M9545004RC44357	1	\$97,329.00			X			
M9545003RC36364	1	\$4,515.56		X				
M9545032584404	1	\$425.00				X		
	2	(\$79.90)				X		
M9545032724512	1	\$115.46				X		
M9545004RC46063	1	\$1,493.24						
M9545005RC01462	1	\$470,000.00	X					
M9545004MP46135	1	\$24,895.00		X				
M9545004RC46135	1	\$1,372,105.00						
M9545005MP56243	1	\$19,865.00						
M9545005RC56243	1	\$976,135.00						
M9545004WR46134	1	\$10,000.00						

\* This column identifies deobligations with parentheses.

Standard Document Number	Obligation Number	AMOUNT*	Recorded between 11 and 30 days	Recorded between 31 and 90 days	Recorded between 91 and 627 days	No obligating document	Not Obligated in the Same Month	Disbursed before obligated
M9545004RC42003	1	\$80,100.00	X					
	2	\$14,058.00						
	3	(\$7,000.00)						
M9545006MP52312	1	\$25,731.30						
M9545005RC52198	1	\$20,880.00		X				
M9545003RC32021	1	\$474,240.00						
M9545003RC32021	1	\$106,941.06		X			X	
	2	(\$49,000.00)	X					
M9545003MP32083	1	\$3,405,888.00					X	
	2	\$1,433,000.00	X				X	
	3	\$1,260,000.00						
M9545005RC52116	1	\$22,313.00	X					
M9545005RC02324	1	\$2,588,207.00		X			X	
M9545005RC52116	1	\$40,200.00			X			
M9545006RC62027	1	\$18,336.00	X					
<b>Total Obligations</b>		<b>\$60,288,881.99</b>						
<b>Obligations with Problems</b>			<b>8</b>	<b>16</b>	<b>9</b>	<b>4</b>	<b>17</b>	<b>2</b>
<b>Total Deobligations</b>		<b>(\$10,454,782.13)</b>						
<b>Deobligations with Problems</b>			<b>1</b>	<b>1</b>	<b>2</b>	<b>1</b>	<b>2</b>	<b>0</b>

\* This column identifies deobligations with parentheses.

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## **Appendix D. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense for Acquisition, Technology, and Logistics  
Director, Acquisition Resources and Analysis  
Under Secretary of Defense (Comptroller)/Chief Financial Officer  
Deputy Chief Financial Officer  
Deputy Comptroller (Program/Budget)  
Director, Program Analysis and Evaluation

### **Department of the Navy**

Commandant of the Marine Corps  
Commander, Marine Corps Systems Command  
Assistant Secretary of the Navy (Manpower and Reserve Affairs)  
Naval Inspector General  
Auditor General, Department of the Navy

### **Other Defense Organizations**

Director, Defense Finance and Accounting Service

### **Non-Defense Federal Organization**

Office of Management and Budget

### **Congressional Committees and Subcommittees, Chairman and Ranking Minority Member**

Senate Committee on Appropriations  
Senate Subcommittee on Defense, Committee on Appropriations  
Senate Committee on Armed Services  
Senate Committee on Homeland Security and Governmental Affairs  
House Committee on Appropriations  
House Subcommittee on Defense, Committee on Appropriations  
House Committee on Armed Services  
House Committee on Oversight and Government Reform  
House Subcommittee on Government Management, Organization, and Procurement,  
Committee on Oversight and Government Reform  
House Subcommittee on National Security and Foreign Affairs,  
Committee on Oversight and Government Reform

# Department of the Navy Comments



DEPARTMENT OF THE NAVY  
OFFICE OF THE ASSISTANT SECRETARY  
FINANCIAL MANAGEMENT AND COMPTROLLER  
1000 NAVY PENTAGON  
WASHINGTON DC 20350-1000

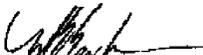
August 1, 2007

**FIRST ENDORSEMENT on Commandant of the Marine Corps (RFR) Itr RFR-50 of 27 Jul 07**

**From:** Director, Office of Financial Operations  
**To:** Department of Defense Office of the Deputy Inspector General for Auditing,  
Defense Financial Auditing Service

**Subj:** DEPARTMENT OF DEFENSE INSPECTOR GENERAL DRAFT REPORT D-2006-  
D000FH-0167.000, "MARINE CORPS INTERNAL CONTROLS OVER MILITARY  
EQUIPMENT FUNDS," DATED 28 JUNE 2007

1. Forwarded, concur with no comment.
2. My point of contact is Mr. Kyle T. Fugate, who can be reached at (202) 685-6718.

  
MARK E. EASTON  
Director  
Office of Financial Operations

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# United States Marine Corps Comments



DEPARTMENT OF THE NAVY  
HEADQUARTERS UNITED STATES MARINE CORPS  
3000 MARINE CORPS PENTAGON  
WASHINGTON, DC 20380-3000

IN REPLY REFER TO:  
6FH-0167  
RFR-50  
27 Jul 07

From: Commandant of the Marine Corps (RFR)  
To: Department of Defense Office of the Deputy Inspector  
General for Auditing, Defense Financial Auditing Service  
Via: Assistant Secretary of the Navy, Financial Management and  
Comptroller

Subj: DEPARTMENT OF DEFENSE INSPECTOR GENERAL DRAFT REPORT  
D-2006-D000FH-0167.000, "MARINE CORPS INTERNAL CONTROLS  
OVER MILITARY EQUIPMENT FUNDS," dated 28 June 2007

Ref: (a) DODIG memo of 28 June 2007

Encl: (1) Marine Corps comments

1. In accordance with reference (a), the Marine Corps has reviewed the subject draft report and provides comments at the enclosure.

A handwritten signature in black ink, appearing to read "R. F. Kassel".

R. F. KASSEL  
By direction

Subj: DEPARTMENT OF DEFENSE INSPECTOR GENERAL DRAFT REPORT  
D-2006-D000PH-0167.000, "MARINE CORPS INTERNAL CONTROLS  
OVER MILITARY EQUIPMENT FUNDS," dated 28 June 2007

1. The Marine Corps has reviewed the draft report and the following comments are provided:

Recommendation A.1. Recommend that the Commandant of the Marine Corps revise the Marine Corps Order P7300.21 to include the DoD Financial Management Regulation, volume 3, chapter 8 requirement that funds be obligated and deobligated no more than 10 calendar days after being incurred and within the same month incurred for obligations of \$100,000 or more.

Marine Corps Response: Concur. Marine Corps Order (MCO) P7300.21 is undergoing revision and specific references to DoD Financial Management Regulation (PMR), Volume 3, Chapter 8 have been incorporated into the draft form of the order. Sections underscoring the transaction recording process address the requirement to record accounting system entries "as soon as possible and no later than 10 calendar days from the receipt of source documents that accurately reflect the proper transaction cycle stage of each unique document number." Sections highlighting source document monitoring convey the following requirements:

1. "Ensure that the obligation document (e.g., purchase order, contract) has been received within 6 calendar days from the date the obligation was incurred."
2. "Obligations requiring manual input by fund managers into the accounting system must be keyed within 3 calendar days from the receipt of the obligating source document(s). Obligation recording cannot exceed 10 calendar days from the date the obligation is incurred. Obligations of \$100,000 or more must be recorded in the same month as incurred."

MCO P7300.21 revision and publication is expected to be completed by 31 DEC 2007.

Recommendation 2. Recommend the Commander, Marine Corps Systems Command:

- a. Establish and implement standard operating procedures and controls which ensure that military equipment funds are obligated and deobligated in a timely manner, and that documentation is retained as required by the DoD Financial Management Regulation.

Encl (1)

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Subj: DEPARTMENT OF DEFENSE INSPECTOR GENERAL DRAFT REPORT  
D-2006-D000PH-0167.000, "MARINE CORPS INTERNAL CONTROLS  
OVER MILITARY EQUIPMENT FUNDS," dated 28 June 2007

Marine Corps Response: Concur. Marine Corps Systems Command has procedures and controls in place to satisfy the requirements outlined in the DOD Financial Management Regulation. However, it should be noted that the large majority of the obligation records reviewed by the IG were obligations that were incurred outside of the Marine Corps resulting in untimely obligations/deobligations. The Marine Corps does not control outside agencies/services throughput time to submit MIPR Acceptances/contract documentation for entry into the accounting system. In all cases, Marine Corps Systems Command records an administrative reservation of funds (commitment) in the accounting system (SABRS). Therefore, regardless of when the obligation document appears for that requirement, the funds have already been reserved for that purpose. Subsequently, only the uncommitted budgetary balance would be available for new requirements. This control safeguards against violations of the Antideficiency Act.

- b. Implement the triannual review process to ensure that funds are reviewed for timeliness, accuracy, completeness, and that documentation is retained in accordance with the DoD Financial Management Regulation, volume 3, chapter 8, and the Marine Corps Order P7300.21.

Marine Corps Response: Concur. The Marine Corps Systems Command does have a triannual review process, but agrees that documentation and follow-up on dormant obligations can be improved to increase effectiveness. Process improvements will be in place in time for the next triannual review, due to be completed by 21 October 2007.

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## **Team Members**

The Department of Defense Office of the Deputy Inspector General for Auditing, Defense Financial Auditing Service prepared this report. Personnel of the Department of Defense Office of Inspector General who contributed to the report are listed below.

Paul J. Granetto  
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Shirlenne S. Tsay  
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# Inspector General Department of Defense

