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### **Acronyms**

DIA	Defense Intelligence Agency
DoD IG	Department of Defense Inspector General
FACTS	Financial Accounting and Corporate Tracking System
NSA	National Security Agency
OMB	Office of Management and Budget
PP&E	Property, Plant, and Equipment



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June 17, 2008

MEMORANDUM FOR DIRECTOR, DEFENSE INTELLIGENCE AGENCY

SUBJECT: Report on the Status of Prior Recommendations Related to the  
Defense Intelligence Agency Financial Statements  
(Report No. D-2008-102)

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 Mr. Marvin L. Peek at (703) 601-5948 (DSN 329-5948) or Ms. Dorothy Jones at (703) 601-5910 (DSN 329-5910). The team members are listed inside the back cover. See Appendix C for the report distribution.

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# Department of Defense Office of Inspector General

Report No. D-2008-102

June 17, 2008

(Project No. D2007-D000FA-0152.000)

## Status of Prior Recommendations Related to the Defense Intelligence Agency Financial Statements

### Executive Summary

**Who Should Read This Report and Why?** Defense Intelligence Agency (DIA) policy makers and personnel responsible for internal control, accounting for, and reporting financial information supporting the DIA financial statements, should read this report. The report addresses the progress DIA has made in correcting deficiencies identified relating to the DIA financial statements.

**Background.** The Office of Management and Budget Circular No. A-50, Revised, "Audit Followup," September 29, 1982, states that audit followup is an integral part of good management and is a shared responsibility of the agency management officials and the auditors. It further states that corrective action taken by management on resolved findings and recommendations is essential to improving the effectiveness and efficiency of Government operations.

During FYs 2002 through 2007, the DoD Office of Inspector General issued five audit reports with 82 recommendations that addressed deficiencies related to DIA auditability and reliability of information supporting its financial statements. This report shows the status of actions taken by DIA to implement those recommendations.

**Results.** DIA is making progress in implementing recommendations included in our audit reports on financial-related operations and reporting. We have closed 46 of the 82 recommendations made to correct prior reported deficiencies. Progress has been slow because many of the recommendations that remain open are directly or indirectly related to deficiencies that DIA expects to correct when it fully implements its new accounting system and establishes adequate procedures and controls to ensure supportable and reliable data are produced. If DIA establishes a centralized system to track and monitor the implementation of all prior recommendations, it should help to ensure corrective actions are taken and documented as quickly as feasible. Such a system could also provide needed oversight to ensure DIA achieves auditable and supportable financial statements. Until corrective actions are completed as outlined in previous audit reports, DIA will continue to face major challenges in producing auditable, reliable financial statements. See the Finding section of the report for the detailed recommendation.

**Management Comments and Audit Response.** The Director, DIA concurred with the recommendation and has established and implemented a database showing progress in correcting deficiencies and explanations of delays. This database is updated as significant changes occur. Management Comments were fully responsive to the recommendation. 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

**Defense Intelligence Agency.** The Defense Intelligence Agency (DIA) is a combat support agency created on October 1, 1961, as the nation's primary producer of foreign military intelligence. The Director, DIA is the principal leadership advisor on substantive intelligence matters to the Secretary of Defense and Chairman, Joint Chiefs of Staff, and he is responsible for coordinating the use of DoD intelligence Components' personnel and resources in order to satisfy DoD intelligence requirements.

**Financial Statement Reporting.** Federal agencies traditionally prepared financial reports to monitor and control the obligations and expenditure of budgetary resources. With the enactment of the "Chief Financial Officers Act of 1990" (Public Law 101-576), as amended by the "Federal Financial Management Act of 1994" (Public Law 103-356), Congress called for the Executive departments to submit audited financial statements that fully disclose the departments' financial positions. Financial information from DIA is included in the DoD Agency-wide financial statements. In January 1997, the President directed the DoD intelligence agencies, including DIA, to begin preparing separate classified financial statements, which would be subject to audit.

**Prior Audit Coverage.** The DoD Office of Inspector General (DoD IG) conducted limited audits of DIA financial statements for FYs 2001 through 2003 and performed oversight of assessments conducted by Urbach Kahn & Werlin LLP, Certified Public Accountants, during FYs 2004 through 2007. During the audits and assessments, auditors identified numerous deficiencies that would prevent DIA or make it more difficult for DIA to obtain a favorable audit opinion on its financial statements.

**Followup Guidance.** Office of Management and Budget (OMB) Circular A-50, Revised, "Audit Followup," September 29, 1982, provides the policies and procedures for use by executive agencies when considering reports issued by the Inspectors General and other organizations where followup is necessary. The Circular states that audit followup is an integral part of good management. It further states that agency management officials are responsible for taking corrective actions. Corrective action taken by management on recommendations is essential to improving the effectiveness and efficiency of Government operations.

DoD Directive 7650.3, "Follow-up on General Accounting Office (GAO),<sup>1</sup> DoD Inspector General (DoD IG), and Internal Audit Reports," June 3, 2004, establish DoD policy and responsibilities for followup on audits findings and recommendations. The Directive requires DoD IG to evaluate corrective actions taken by the DoD Components in response to recommendations included in Government Accountability Office and DoD IG reports and identify any discrepancies to appropriate officials.

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<sup>1</sup> The General Accounting Office is now known as the Government Accountability Office.

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## **Objectives**

Our overall audit objective was to assess management's actions and progress in correcting deficiencies identified during our prior financial-related audits. Specifically, we determined management's progress in implementing prior financial-related audit recommendations, and we reviewed corrective actions for material deficiencies that may prevent DIA from obtaining a favorable audit opinion. See Appendix A for a discussion of the scope and methodology and for prior coverage related to the objectives.

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## **Progress in Correcting Uncorrected Deficiencies**

DIA is making progress in implementing recommendations included in our audit reports on financial-related operations and reporting. We closed 46 of the 82 recommendations made to correct prior reported deficiencies. However, DIA has not corrected the remaining deficiencies. Progress has been slow because many of the recommendations that remain open are directly or indirectly related to deficiencies that DIA expects to be corrected when its new accounting system is fully implemented and adequate procedures and controls have been established to ensure supportable and reliable data produced. Establishing a centralized system to track and monitor the implementation of all prior recommendations will help to ensure corrective actions are taken and documented as quickly as feasible and provide needed oversight to ensure DIA achieves auditable and supportable financial statements. Until DIA corrects the deficiencies, it will continue to face challenges in producing auditable, reliable financial statements.

### **Progress Made**

DIA is taking corrective actions to improve its management, accountability, and reporting of information to support its financial statements. For example, DIA increased its workforce in its accounting and financial reporting operations and obtained contractor support to assist in data cleansing efforts and with documenting its processes. In addition, on October 16, 2007, the DIA Business Enterprise Office launched a new core financial management system—the Financial Accounting and Corporate Tracking System (FACTS). DIA worked with the National Security Agency (NSA), its financial service provider, to implement FACTS. FACTS is now the DIA official financial system of record. DIA and NSA personnel expect FACTS to provide accurate and timely financial data when it is fully implemented.

### **Deficiencies Identified in Previous DoD IG Reports**

During FYs 2002 through 2007, we issued five audit reports that identified deficiencies in financial operations; financial reporting; and property, plant, and equipment (PP&E). As a result, we made 82 recommendations to correct the deficiencies and improve DIA financial operations. We closed 46 of the 82 recommendations. (We closed 4 of the 46 recommendations because recommendations in subsequent reports addressed similar deficiencies.) Table 1 shows the number of recommendations made in each report by functional area.<sup>2</sup>

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<sup>2</sup> Some of the recommendations may cover more than one functional area. However, we categorized each recommendation into only one of these three functional areas.

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**Table 1. Recommendations by Report and Functional Area**

<b>Report Number*</b>	<b>Financial Operations</b>	<b>Financial Reporting</b>	<b>PP&amp;E</b>	<b>Totals</b>
D-2002-117	1	5	0	<b>6</b>
D-2003-074	2	6	0	<b>8</b>
D-2004-079	1	3	10	<b>14</b>
D-2005-097	18	13	3	<b>34</b>
D-2007-029	1	6	13	<b>20</b>
<b>Totals</b>	<b>23</b>	<b>33</b>	<b>26</b>	<b>82</b>
*See Appendix A for the report title.				

**Financial Operations.** Of the 23 recommendations related to financial operations, 8 remain open. The uncorrected deficiencies include a lack of:

- the ability to record accounts payable upon the receipt of goods and services,
- written policies and procedures addressing documentation and availability of information to support accounting transactions,
- completed service-level agreements with the Department of State and the Defense Finance and Accounting Service,
- correct posting logic for allocations received, and
- adequate reviews of unliquidated obligations.

**Financial Reporting.** Of the 33 recommendations related to financial reporting, 12 remain open. Seven of the open recommendations directly relate to the continuing implementation of FACTS. Other uncorrected deficiencies include the need to report liabilities in accordance with generally accepted accounting principles, to reconcile property general ledger accounts with subsidiary records, and to record and report all DIA PP&E.

**PP&E.** Of the 26 recommendations related to PP&E, 16 remain open. Uncorrected deficiencies include the need to:

- finalize a new PP&E manual,
- complete processing reports of surveys,
- calculate depreciation for all assets,
- ensure the availability of adequate support documentation, and
- complete a wall-to-wall inventory of all assets.

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## Accounting System

Prior audits identified several deficiencies related to the DIA accounting system that was noncompliant with the Federal Financial Management Improvement Act of 1996. This act requires DoD to establish and maintain financial systems that comply substantially with Federal financial management system requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. DIA was unable to correct some deficiencies primarily because DIA used a noncompliant NSA accounting system to accumulate and report budgetary and expenditure transactions. During the audit, DIA officials were heavily involved with NSA personnel in implementing FACTS. Because FACTS had significant problems during implementation, management and contractor support teams continue to develop and implement various capabilities. Complete implementation of FACTS should help correct many deficiencies directly or indirectly related to the lack of a compliant accounting system. We plan to address these when management has had ample time to verify that corrective actions have taken place.

## Tracking Recommendations and Monitoring Corrective Actions

DIA did not have procedures in place to track and monitor the implementation of the recommendations made in the prior DoD IG audit reports to ensure DIA took corrective actions. As a result, DIA did not have readily available information regarding the status of all the recommendations and corrective actions. Establishing a tracking system for recommendations that have not been implemented will not in itself ensure that the recommendations are implemented. However, using a tracking system with sufficient management oversight should improve management's ability to ensure DIA makes corrective actions for the recommendations as quickly as practical.

OMB Circular A-123 Revised, "Management's Responsibility for Internal Control," December 21, 2004, states that correcting deficiencies is an integral part of management accountability and agencies must consider this a priority by the agency. It further states that the extent to which an agency tracks corrective actions should be commensurate with the severity of the deficiency. All agencies should develop corrective action plans for all material weaknesses, which it defines as reportable conditions that management determined to be significant enough to be reported outside the agency.

OMB Circular A-50, Revised, requires agencies to assign a high priority to resolving audit recommendations and taking corrective action. It further requires that the agency maintain accurate records of the status of audit reports or recommendations through the entire process of resolution and corrective action. In addition, DoD Internal Audit Manual 7600.7-M, June 1990, states that management of the audited entity is primarily responsible for directing and completing action on recommendations.

Of the 82 recommendations included in the past five reports, 36 remain open because corrective actions have not been completed, as shown on Table 2.

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Additional information on the status and each recommendation is shown in Appendix B.

**Table 2. Recommendation Status**

<b>Functional Area</b>	<b>Open</b>	<b>Closed</b>	<b>Total</b>
Financial Operations	8	15	23
Financial Reporting	12	21	33
PP&E	16	10	26
<b>Total</b>	<b>36</b>	<b>46</b>	<b>82</b>

During the audit, personnel responsible for accountability and reporting of PP&E began keeping some data to track the status of each applicable recommendation. However, documentation supporting their conclusions was not complete. Developing and implementing a comprehensive system to track the status of all recommendations, as begun by logistics personnel in tracking recommendations related to PP&E, would highlight areas where corrective actions are falling behind and facilitate DIA management in completing corrective actions more quickly.

## **Recommendation, Management Comments, and Audit Response**

**We recommend that the Director of the Defense Intelligence Agency establish and implement a process to track and monitor the status of all recommendations and corrective actions. At a minimum, the process should include:**

- **documented plans to ensure corrective actions for all open recommendations,**
- **timely updates to accurate records showing the status of each recommendation, and**
- **well-documented support showing progress or reasons for a lack of progress.**

**Management Comments.** The Director, DIA concurred and has established and implemented a system which includes findings and recommendations from prior audit reports in an online database. The database cross references to corrective action plans, shows dates when various activities took place, and includes information on progress or explanations of delays. It is also designed to be updated as significant changes occur.

**Audit Response.** Management was fully responsive to the recommendation. We have reviewed the database and, when further enhancements are made, if properly updated, it should provide DIA management with a useful tool to track and monitor the status of recommendations and deficiencies. We consider the recommendation closed.

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## Appendix A. Scope and Methodology

We conducted this followup audit from March 2007 through March 2008 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusion based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusion based on our audit objectives.

We performed this audit at the DIA Defense Intelligence Analysis Center in Washington, D.C. We assessed DIA actions taken to implement the 82 recommendations DoD IG made in five audit reports issued during FYs 2002 through 2007. We also issued Report No. D-2008-003, "Auditability Assessment of the Defense Intelligence Agency Fund Balance with Treasury and Appropriations Received," on October 16, 2007. We did not include the status of these recommendations in our audit because we wanted to give DIA time to take corrective actions. We reviewed each recommendation and the documentation DIA provided to show implementation and progress made in correcting the deficiencies associated with the recommendations. DIA provided the estimated completion dates shown in Appendix B for open recommendations.

Our review of internal controls consisted of reviewing how DIA monitors and tracks the status of prior recommendations for corrective actions. DIA internal controls should improve if it establishes a tracking mechanism to monitor the status of each open recommendation.

DIA began using FACTS during this audit. However, because it was newly established and had significant problems when DIA first began using it, DIA was not able to provide us with information regarding the status of some of these recommendations. We will review these at a later date when DIA has had sufficient time to fully implement its new accounting system.

**Use of Computer-Processed Data.** We did not use computer-processed data to perform this audit.

**Government Accountability Office High-Risk Area.** The Government Accountability Office has identified several high-risk areas in DoD. This report provides coverage of the DoD Financial Management high-risk area.

### Prior Coverage

During the last 6 years, the Department of Defense Inspector General (DoD IG) has issued six reports discussing DIA management, accountability, and reporting on the agency stewardship over its assets.

DoD IG Report No. D-2008-003, "Auditability Assessment of the Defense Intelligence Agency Fund Balance with Treasury and Appropriations Received, October 16, 2007

DoD IG Report No. D-2007-029, "Auditability Assessment of the Defense Intelligence Agency Business Processes for the Identification, Documentation,

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and Reporting of Property, Plant, and Equipment,” November 30, 2006  
(Classification: SECRET//NOFORN)

DoD IG Report No. D-2005-097, “Auditability Assessment for the Financial Statements of the Defense Intelligence Agency,” August 18, 2005  
(Classification: SECRET//NOFORN)

DoD IG Report No. D-2004-079, “Reliability of the Defense Intelligence Agency FY 2003 Financial Statements,” April 29, 2004 (Classification: SECRET//XI)

DoD IG Report No. D-2003-074, “Reliability of the FY 2002 Defense Intelligence Agency Financial Statements and Adequacy of Related Procedures and Controls,” April 7, 2003 (Classification: SECRET)

DoD IG Report No. D-2002-117, “Review of the FY 2001 Financial Statements for the Defense Intelligence Agency,” June 25, 2002 (Classification: SECRET)

## Appendix B. Status of Prior Recommendations

The five tables below present, by audit report, the status (open or closed) of all DoD IG recommendations issued to DIA as a result of prior audits. We included a justification for the status, as well as the functional area for each recommendation.

**Table B-1. “Review of the FY 2001 Financial Statements for the Defense Intelligence Agency”**  
(DoD IG Report No. D-2002-117, June 25, 2002)

No.	Recommendation	Status	Justification	Functional Area
1.	Continue to participate, as required, in the development of the DoD financial management enterprise architecture that is being led by the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD Financial Modernization Program Office.	Closed	DIA continues to work with NSA, and on October 16, 2007, DIA launched its new financial system.	Financial Operations
2.	Comply with Office of Management and Budget and DoD guidance when preparing the Overview and Principal Statements.	Closed	DIA generally complies with OMB and DoD guidance in preparing its financial statements. Although DIA cannot correctly account for all imputed cost, it disclosed the discrepancy in Note 19 to the financial statements.	Financial Reporting
3.	Establish procedures to ensure that all required reconciliations are performed. Specifically:			
a.	Coordinate with the Defense Finance and Accounting Service to obtain detailed information to assist in the reconciliation of the Fund Balance with the Treasury account.	Closed	DIA is coordinating with the Defense Finance and Accounting Service. However, DIA is unable to reconcile fully its Fund Balance with Treasury. We made specific recommendations in Report No. D-2008-003; therefore, we closed this recommendation.	Financial Reporting
b.	Perform DoD required financial statement reconciliation.	Closed	DIA started using the Defense Departmental Reporting System in January 2008. This system performs required reconciliations.	Financial Reporting
c.	Perform quarterly reconciliation of proprietary general ledger accounts to the subsidiary records.	Open	DIA assigned this task to integrated process teams as a plan of action. Estimated completion: end of FY 2010.	Financial Reporting

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No.	Recommendation	Status	Justification	Functional Area
4.	Evaluate and commit the manpower resources necessary to fully comply with OMB and DoD guidance for the preparation and presentation of agency financial statements, the anticipated future accelerated reporting requirements, and the review of unpaid obligations.	Closed	DIA increased its work force from 8 to 18. In addition, DIA has complied with the quarterly reporting requirement.	Financial Reporting

**Table B-2. “Reliability of the FY 2002 Defense Intelligence Agency Financial Statements and Adequacy of Related Procedures and Controls”**  
(DoD IG Report No. D-2003-074, April 7, 2003)

<b>No.</b>	<b>Recommendation</b>	<b>Status</b>	<b>Justification</b>	<b>Functional Area</b>
1.	Evaluate and commit the personnel resources necessary to fully comply with OMB and DoD guidance for the preparation of agency financial statements and related footnotes.	Closed	DIA has increased its work force from 8 to 18. In addition, DIA has complied with the quarterly reporting.	Financial Reporting
2.	Prepare future financial statements in accordance with the most current guidance issued by OMB and DoD.	Closed	DIA prepared financial statements in accordance with guidance.	Financial Reporting
3.	Establish internal control procedures that, at a minimum, require accounting personnel to:			
a.	Perform tri-annual reviews in accordance with DoD guidance. Also, perform followup on the result of the reviews in a timely manner.	Open	DIA stated that it performed these reviews in FY 2006, but could not provide evidence to support this assertion. In FY 2007, DIA did not perform the review because of its data cleansing efforts. DIA scheduled the first review for FY 2008 to begin in February 2008. We will assess the results of the efforts later to confirm that DIA is consistently performing and documenting the required reviews.	Financial Operations
b.	Coordinate with NSA to determine whether NSA Report GRT905 should be modified to capture the date of the most recent activity to assist in the required tri-annual reviews.	Closed	This recommendation pertained to a report generated from a DIA legacy accounting system, which is no longer used. Therefore, we closed the recommendation.	Financial Operations
c.	Record, report, and estimate material year-end liabilities in accordance with generally accepted accounting principles.	Open	DIA developed a plan of action and milestones for recording liabilities and assigned the plan to its “Procure to Pay” Integrated Process Team. Expected completion: September 2010.	Financial Reporting
d.	Ensure that journal vouchers are prepared in accordance with the Treasury Financial Manual and have adequate support.	Closed	DIA included the budgetary entries in its journal vouchers, as required by the Treasury Financial Manual and maintained support documentations for the entries.	Financial Reporting
e.	Reconcile the fiscal year-end proprietary trial balance to the certified budgetary execution reports.	Closed	DIA manually reconciled its fiscal year-end proprietary trial balance to the certified budgetary execution reports in FY 2007.	Financial Reporting

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<b>No.</b>	<b>Recommendation</b>	<b>Status</b>	<b>Justification</b>	<b>Functional Area</b>
f.	Document the procedures and methodologies use to accumulate, process, report, and review financial and financial-related information.	Closed	DIA documented its procedures for preparing the financial statements and other required financial reports with flow charts and narrative.	Financial Reporting

**Table B-3. “Reliability of the Defense Intelligence Agency  
FY 2003 Financial Statements”**  
(DoD IG Report No. D-2004-079, April 29, 2004)

No.	Recommendation	Status	Justification	Functional Area
A.1.	Work with the Defense Finance and Accounting Service and NSA to develop an automated procedure to process disbursement transactions into DIA accounting records.	Closed	DIA implemented use of the “Transactions By Others Auto Post Program” on October 1, 2006.	Financial Operations
A.2.	Establish an automated system to prepare financial statements based on the trial balance.	Closed	DIA used the Defense Department Reporting System to prepare its first quarter FY 2008 Financial Statements.	Financial Reporting
A.3.	Comply with OMB and DoD guidance when preparing the financial statements to ensure that they provide comparative financial statements and explanations of significant variances from year to year.	Closed	DIA complied with OMB and DoD guidance for preparing the financial statements to include the preparation of comparative financial statements with explanations of significant variances from year to year.	Financial Reporting
B.1.	Ensure that capital property reported on the Balance Sheet agrees with subsidiary records.	Open	DIA is identifying personal property to be included on the Balance Sheet. Estimated completion: September 2008.	Financial Reporting
B.2.	Establish controls to ensure proper documentation (such as an invoice) is used and maintained to support the acquisition of capital property.	Closed	Report No. D-2007-029, Recommendation 2.c. replaced this recommendation.	PP&E
B.3.	Complete a wall-to-wall inventory (including property with the Iraq Survey Group) and use the information to update the appropriate property system.	Closed	Report No. D-2007-029, Recommendation 3 and 5.a cover this recommendation.	PP&E
B.4.	Update the Logistics Operation Manual and develop a property system manual that incorporates the requirements of DoD Instruction 5000.64 and the DoD Financial Management Regulation for property accountability.	Open	Closure of this recommendation is dependent on the issuance of a replacement to DIA Manual 25-1, which is expected to be finalized in March 2008.	PP&E
B.5.	Complete reports of survey within the timeframes established in DIA Manual 25-3, and process them in accordance with the guidance in the DoD Financial Management Regulation.	Open	DIA has not completed processing reports of survey. New target date for completion: fourth quarter, FY 2008.	PP&E
B.6.	Update the Logistical Services, Accounting for Lost, Damage, and Destroyed Property Manual to incorporate the requirements of the DoD Financial Management Regulation.	Open	DIA has not updated the Logistical Services Manual. Estimated completion: second quarter, FY 2008.	PP&E

No.	Recommendation	Status	Justification	Functional Area
B.7.	Ensure that personnel are properly trained on property accountability for financial reporting requirement.	Closed	DIA has provided training to its officers for accountable property in identifying capital assets and the documentation needed to support property valuation.	PP&E
B.8.	Established management controls to ensure that:			
a.	Sufficient documentation is available (such as completed reports of survey) for property removed from accountable records.	Open	Transactions occurring after FY 2004 involving transfer or removal of DIA property are electronically archived within the property accountability system. DIA maintains all adjustments in electronic archives and property personnel maintain signed copies of such transactions format suitable for audit. DIA has performed a limited review of the support for these transactions and plans to expand the review to focus on achieving documentation for all transactions. Estimated completion: second quarter, FY 2008.	PP&E
b.	Transferred capital assets within DIA are not deleted from the property system.	Closed	DIA established management controls to ensure that transferred capital assets within DIA are not deleted from the property system.	PP&E
c.	Adequate supporting documentation is prepared promptly for assets transferred between locations.	Closed	DIA established management controls to ensure that adequate supporting documentation is prepared for assets transferred between locations.	PP&E
d.	Depreciation is correctly calculated and recorded for each capital asset item in accordance with the DoD Financial Management Regulation.	Open	DIA calculated depreciation on buildings only. Depreciation on personal property has been excluded until all such property is entered into the DIA general ledger. Estimated completion: fourth quarter, FY 2008.	PP&E

**Table B-4. “Auditability Assessment for the Financial Statements of the Defense Intelligence Agency”**

(DoD IG Report No. D-2005-097, August 18, 2005)

No.	Recommendation	Status	Justification	Functional Area
1.a.	Ensure that the contractor developing the accounting policies and procedures manual works closely with the systems development team to coordinate all business process improvements with standard design capabilities of the new Financial Management System.	Closed	DIA has system procedure manuals that provide step-by-step instructions for completing certain tasks within FACTS. In addition, each manual includes process flow diagrams.	Financial Operations
1.b.	Work with NSA to ensure that any accounting and reporting requirements unique to intelligence agencies and DoD are properly incorporated in the new Financial Management System.	Closed	DIA began using FACTS in October 2007 with goals to enhance decision making, improve financial operations, ensure operational continuity, and enable compliance with the Chief Financial Officers Act. DIA continues to work with NSA to resolve problems related to implementing FACTS.	Financial Operations
2.a.	Conduct a risk assessment of its financial management activities and business processes, identify broad mitigating controls, and develop a detailed matrix of critical accounting control activities to be incorporated into its business processes.	Closed	DIA complied with DoD guidance for implementing OMB Circular A-123, Appendix A, which satisfies the intent of the recommendations.	Financial Operations
2.b.	Establish a core team dedicated to ensuring that critical accounting controls are highlighted in its business process documentation.	Closed	DIA established a core team to ensure critical accounting controls are implemented as part of the OMB Circular A-123, Appendix A process.	Financial Operations
2.c.	Ensure that the core team is responsible for developing and executing a financial testing plan to meet the upcoming requirements of the revised OMB Circular A-123.	Closed	DIA developed test plans in accordance with DoD instruction for implementing OMB Circular A-123.	Financial Operations
3.a.	Confirm the correct US Standard General Ledger posting to be used when receiving allocations from the Office of the Secretary of Defense.	Open	DIA continues to post allocations as if it received the appropriations from OMB, instead of the Office of the Secretary of Defense, and did not confirm if the correct accounts were used.	Financial Operations
3.b.	Work with NSA to ensure that the proper transaction code for receiving allocations from DoD is incorporated into the new Financial Management System.	Open	Implementing this recommendation is dependent on implementation of Recommendation 3.a.	Financial Operations

No.	Recommendation	Status	Justification	Functional Area
4.a.	Work with NSA to ensure the new core Financial Management System has full and efficient capabilities for generating subsidiary detail reports for all financial account balances.	Open	DIA financial systems personnel did not respond to our queries regarding its development of FACTS because they were working on implementing the new system. In October 2007, DIA began using a new accounting system, FACTS, developed for the National Security Agency. DIA has been working closely with the contractor and NSA during the development of this system. DIA and NSA continue to correct numerous problems associated with FACTS, and they are developing new procedures to support using it. We will assess compliance with the recommendations at a later date when DIA has had ample time to implement the new accounting system.	Financial Reporting
4.b.	Establish routine monitoring procedures to review and approve routine reconciliations of related subsidiary transactional data with trial balance amounts to ensure balances are accurately reported.	Open	DIA is working to develop the necessary procedures. Closing this recommendation may be delayed because DIA wants to ensure the new procedures are fully compatible with FACTS.	Financial Reporting
4.c.	Ensure that data files supporting the amounts on reconciliations, including adjustments, can be provided to the auditors in an electronic format timely.	Open	See justification for Recommendation 4.a.	Financial Reporting
5.a.	Develop standard reports in its current general ledger system that creates subsidiary ledger detail for major general ledger account balances.	Open	See justification for Recommendation 4.a.	Financial Reporting
5.b.	Work with NSA to ensure that the new core Financial Management System being developed incorporated functional reporting capabilities needed to support financial reporting, monitoring and audit requirements.	Open	See justification for Recommendation 4.a.	Financial Reporting

No.	Recommendation	Status	Justification	Functional Area
6.a.	Develop and implement a comprehensive budget formulation system that is integrated with the budget implementation system and the new core Financial Management System consistent with the goals and objectives of OMB, the Joint Financial Management Improvement Program, and the Department of Defense Business Management Modernization Program.	Open	DIA stated that its budget formulation system is compliant with the Joint Financial Management Improvement Program. However, it did not provide supporting documentation for this assertion.	Financial Reporting
6.b.	Work with NSA to identify any limitations to the future integration of feeder system between DIA disbursing servicers and the new core Financial Management System.	Closed	DIA implemented the "Transactions By Others Auto Post Program" on October 1, 2006.	Financial Operations
6.c.	Conduct a risk assessment as to the impact of identified limitations to the future integration of feeder systems between DIA disbursing servicers and the new core Financial Management System that addresses the effect on DIA auditability.	Closed	See comments to Recommendation 6.b. DIA is now addressing interface issues.	Financial Operations
7.a.	Establish written policies and procedures that address the documentation of financial transactions and ensure the ready availability of such documentation for examination as required by Government Accountability Office guidance.	Open	DIA is developing the necessary procedures. However, closing this recommendation may be delayed because DIA wants to ensure the new procedures are fully compatible with FACTS.	Financial Operations
7.b.	Develop working-level document retention and retrieval policies and procedures for each business process, and the type of source documents needed to support the new audit facilitation requirements.	Open	See justification for Recommendation 7.a.	Financial Operations
7.c.	Develop a Service Level Agreement contract with NSA, the Defense Finance and Accounting Service, and the Department of State that addresses accounting services and support to be provided by each activity, specifically the maintenance and availability of adequate supporting documentation for disbursements.	Open	DIA has developed a Service Level Agreement with NSA, but has not completed agreements with the Department of State and the Defense Finance and Accounting Service. DIA continues to resolve selected issues. Estimated completion: September 2010.	Financial Operations

<b>No.</b>	<b>Recommendation</b>	<b>Status</b>	<b>Justification</b>	<b>Functional Area</b>
8.a.	Design, document, and implement business processes to ensure accounting entries for financial transactions properly reflect when the transactions occurred.	Closed	FACTS allows for the input of the transaction date, as well as the recording date.	Financial Operations
8.b.	Work with NSA to ensure that the new core Financial Management System has the capability to record transactions in multiple accounting months and that the accounting policies and procedures address properly dating accounting events recorded in the system.	Closed	FACTS has the capability to capture the accounting month and the transaction dates.	Financial Operations
8.c.	Reinforce with program and accounting staff the importance of timely execution and posting of accounting events in training to be provided for the new core Financial Management System.	Closed	DIA training stress the importance of timely execution and posting of accounting events.	Financial Operations
9.a.	Establish policies and procedures to record significant delivered goods and services as accrued expenses, record invoices received but not yet paid as accounts payable, and to maintain adequate evidence of performance as required by DoD Financial Management Regulation guidance.	Open	DIA is establishing the necessary policies and procedures and has assigned this recommendation to the "Procure to Pay" Integrated Process Team. Estimated completion: September 2008.	Financial Operations
9.b.	Determine the extent to which these transactions can be identified and reported by field activities and other activities that service DIA (such as DFAS, Department of State, and others) and document procedures required to be performed in the service-level agreement.	Open	We expect to close this recommendation when DIA completes Recommendation 7.c. from Report D-2005-097.	Financial Operations
10.a.	Ensure the current on-going wall-to-wall inventory identifies all capitalizable personal property and the results of the inventory are properly recorded in the appropriated general ledger account as required by DoD Financial Management Regulation guidance.	Closed	Report No. D-2007-029, Recommendation 3 covers this recommendation.	PP&E

No.	Recommendation	Status	Justification	Functional Area
10.b.	Establish policies and procedures that address the process and documentation of periodic physical inventories of real and personal property as required by DoD Financial Management Regulation guidance.	Closed	DIA has established the applicable policies and procedures, which are included in DIA Instruction 4000.001, April 4, 2007.	PP&E
10.c.	Ensure that the accounting policies are designed to ensure documentation relating to additions, deletions, and adjustments to capitalized assets and accountable property maintained is in accordance with DoD standards to support the existence, completeness, and valuation assertions.	Closed	Report No. D-2007-029, Recommendation 1 covers this recommendation.	PP&E
11.	Work with NSA to ensure that the new core Financial Management System incorporates all trading partner data fields and reporting capabilities required to support the elimination validation processes and Required Supplementary Information requirements of DoD and OMB.	Closed	FACTS has the capability to capture the required trading partner data.	Financial Reporting
12.a.	Work with NSA to obtain cost effective system queries from the current general ledger system to report costs by program in accordance with the Federal Accounting Standards Advisory Board and OMB requirements.	Open	See justification for Recommendation 4.a.	Financial Reporting
12.b.	Work with NSA to ensure that the new core Financial Management System incorporates all data fields and reporting capabilities required to support the cost accounting processes and requirements of the Federal Accounting Standards Advisory Board and OMB.	Open	See justification for Recommendation 4.a.	Financial Reporting
13.	Use an interim period financial close to test the controls over the Defense Departmental Reporting System prior to reliance on the system for the year-end financial statement preparation process.	Closed	DIA began using the Defense Departmental Reporting System for the first quarter of FY 2008 and, thus, will have ample time to correct any problems that it incurs before the FY 2008 financial statements are prepared.	Financial Reporting

No.	Recommendation	Status	Justification	Functional Area
14.a.	Require DIA Comptroller to review the requirements for an audit management representation letter with the appropriate senior management officials to reduce the questions and concerns over this standard audit requirement.	Closed	We closed this recommendation because DIA is not close to having auditable financial statements and will not be required to prepare a management representation letter until its financial statements are audited.	Financial Reporting
14.b.	Begin the management representation letter process early in a future audit cycle to ensure all parties have sufficient time to review and consider the representations.	Closed	See justification for Recommendation 14.a.	Financial Reporting
15.a.	Continue to provide all key senior management officials with updates on the financial management improvement initiatives underway and highlight what impact these efforts will have on the day-to-day operations of their respective areas.	Closed	DIA now provides key senior management with updates on its initiatives, which highlight the impact of these efforts on operations.	Financial Reporting
15.b.	Work with NSA to ensure that training materials for the new Financial Management System highlight the strategic importance of the system to the agency's goal of auditability and overall improved financial management.	Closed	DIA stressed the importance of the system to the agency's auditability goal in its training materials.	Financial Operations

**Table B-5. “Auditability Assessment of the Defense Intelligence Agency Business Processes for the Identification, Documentation, and Reporting of Property, Plant, and Equipment”**  
(DoD IG Report No. D-2007-029, November 30, 2006)

No.	Recommendation	Status	Justification	Functional Area
1.	Ensure the establishment of policy and procedures that address the process and documentation for the identification, capitalization, and reporting of PP&E as required by the DoD Financial Management Regulation and Government Accountability Office Standards for Internal Control in the Federal Government.	Closed	DIA issued DIA Property Accountability Instruction 4000.001, which establishes the requirements of the recommendation or refers the reader to the applicable guidance in DoD Regulation 7000.14-R.	Financial Operations
2.a.	Require Property Book Officers located throughout the DIA to identify, record, and report all capital equipment assets that meet the DoD Financial Management Regulation capitalization threshold.	Open	This is an ongoing process and is addressed in DIA Instruction 4000.001. DIA now has resources required to improve asset acquisition reporting and identification of capital and non-capital expenditures. However, complete compliance with this recommendation is dependent on the implementation of compliant accounting and business processes and business feeder systems. Estimated completion: September 2010.	PP&E
2.b.	Update roles, policies, and procedures contained in DIA Manual 25-1, to address the identification, documentation and reporting of capital equipment assets that are required to be reported in DIA financial statements.	Closed	Instead of updating DIA Manual 25-1, DIA developed DIA Instruction 4000.001, which adequately addresses the identification, documentation, and reporting of capital equipment.	PP&E
2.c.	Review all capital equipment assets currently reported by Property Book Officers to ensure that required supporting documentation is maintained, as required by the DoD Financial Management Regulation.	Open	This is an ongoing effort as DIA acquires new assets. Full compliance will require implementing compliant accounting and business system processes and feeder systems that house the supporting documentation for each capital asset. Estimated completion: September 2008.	PP&E

No.	Recommendation	Status	Justification	Functional Area
3.	Complete the wall-to-wall inventory to identify all personal property and record the results of the inventory in the appropriate general ledger accounts as required by the DoD Financial Management Regulation.	Open	DIA performed an initial inventory for all combatant commands except for Korea. After DIA completed the initial inventory, it discovered additional property that should be included in the original count. DIA continues to work with the combatant commands to obtain an accurate and complete inventory. Estimated completion: September 30, 2008.	PP&E
4.	Develop and implement an agency-wide PP&E methodology that is integrated with the planned new core financial management system and is consistent with the goals and objectives of DoD Business Management Modernization Program, the Federal Financial Management Improvement Act, and OMB Circular A-130.	Open	Estimated completion of this recommendation is dependent on the release of the NSA master schedule for the new financial management system and the availability of funds to implement replacement systems. DIA estimates the implementation of the new system to begin in late FY 2008 with full operating capability by the end of FY 2012.	PP&E
5.a.	Identify all buildings, facilities, and other structures located both within and outside the U.S., and properly record the results in the appropriate general ledger accounts as required by the DoD Financial Management Regulation.	Open	DIA has identified all buildings, facilities, and other structures, and it has entered most of the required information into the general ledger. DIA will update the general ledger as it identifies capital improvements or new acquisitions. DIA is also completing its preponderant use reconciliation. Estimated completion: September 30, 2008.	PP&E
5.b.	Require the Directorate of Human Intelligence to identify and document all buildings, facilities and other structure and personal property that should be reported in DIA financial statements as required by DoD Financial Management Regulation.	Open	DIA logistics division recently obtained the personal property records for review from the Directorate of Human Intelligence with recommended procedural changes to support existence, completeness, valuation, and documentation. Estimated completion: third quarter, FY 2008.	PP&E
6.a.	Obtain supporting documentation for the cost of the two unreported buildings located at the Missile and Space Intelligence Center Complex, Huntsville, Alabama, and record the appropriate cost in the general ledger as required by the DoD Financial Management Regulation.	Closed	DIA obtained documentation supporting the cost of these two buildings, and the cost is now shown on the DIA financial statements.	Financial Reporting

No.	Recommendation	Status	Justification	Functional Area
6.b.	Determine whether additional DIA structures need to be capitalized based on the new capitalization threshold policy guidance issued by DoD on March 31, 2006.	Open	DIA continues to reconcile its real property with accountable property records maintained by the Military Services. Closure of this recommendation is dependent on completing Recommendation 5.a. Estimated completion: September 30, 2008.	PP&E
7.a.	Develop policy and procedures that identify the roles and responsibilities for gathering and identifying deferred maintenance information and costs for all real and other personal property located throughout the agency that are reported on financial statements.	Closed	DIA developed policies and procedures to identify the roles and responsibilities for gathering and identifying deferred maintenance information and costs.	PP&E
7.b.	Ensure that the amounts identified as deferred maintenance and reported on financial statements for all DIA PP&E are properly supported as required by the DoD Financial Management Regulation.	Closed	DIA determined that the FY 2007 deferred maintenance for the Defense Intelligence Analysis Center was immaterial. This information was shown on the September 30, 2007 Financial Statements. DIA computed the deferred maintenance for other DIA sites as of December 31, 2007.	Financial Reporting
7.c.	Determine whether the agency has personal property with deferred maintenance that meets the reporting threshold and include these amounts in the annual financial statements.	Open	DIA determined that there were no material amounts of deferred maintenance as of December 31, 2007. However, this information will not be shown on the financial statements until the third quarter of FY 2008, the date when DIA will first include the notes to the interim financial statements. Estimated completion: June 30, 2008.	PP&E
7.d.	Include a narrative statement in financial statements that discloses and describes the method used to determine the estimated amounts of deferred maintenance, information on asset condition, and whether there are material amounts of deferred maintenance for General PP&E personal property, as required by the DoD Financial Management Regulation.	Closed	DIA includes the required narrative in its financial statements.	Financial Reporting
8.a.	Develop policies and procedures that specify the roles and responsibilities for identifying, recording in property records, and reporting heritage assets in the financial statements.	Closed	DIA developed the required policies and procedures specifying the roles and responsibilities for identifying and recording property heritage assets.	Financial Reporting

No.	Recommendation	Status	Justification	Functional Area
8.b.	Require that all paintings, prints, and artifacts located throughout the Defense Intelligence Analysis Center, Armed Forces Medical Institute Center, and the Missile and Space Intelligence Center that are categorized as heritage assets be recorded in the property accountability system.	Open	DIA identified heritage assets and the currently maintains the inventory in a Microsoft Access database. DIA personnel transferred this information into the property accountability system, but because of conversion problems, personnel must manually enter some data into the system manually. Estimated completion: second quarter, FY 2008.	PP&E
8.c.	Report all DIA heritage assets in the financial statements as notes to the financial statements as required by the Statement of Federal Financial Accounting Standards No. 29 and the DoD Financial Management Regulation.	Closed	DIA now reports its heritage assets as required.	Financial Reporting
9.a.	Develop policy and procedures for identifying, recording in property records, and reporting system hardware and software assets that are located throughout the agency.	Open	DIA is working with its Acquisition Directorate to ensure that contracts for information technology hardware and software are properly structured in the contract or in Military Interdepartmental Purchase Requests to facilitate proper asset classification. Estimated completion: September 30, 2009.	PP&E
9.b.	Require applicable directorates to coordinate with the Office of Engineering and Logistics Services in identifying, recording, and reporting of all systems hardware and software that meets the capitalization threshold in the DoD Financial Management Regulation.	Open	DIA is implementing portfolio management to provide oversight of its information technology assets, to include the hardware and systems that support the information technology assets. Estimated completion of the final phase of the new system is scheduled for the fourth quarter, FY 2009.	PP&E
9.c.	Report all DIA system hardware and software assets in financial statements as required by DoD Financial Management Regulation.	Open	DIA continues to work on identifying its system hardware and software. Estimated completion: fourth quarter, FY 2009.	Financial Reporting

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## **Appendix C. Report Distribution**

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

Under Secretary of Defense (Comptroller)/Chief Financial Officer  
Deputy Chief Financial Officer  
Deputy Comptroller (Program/Budget)  
Under Secretary of Defense for Intelligence  
Assistant to the Secretary of Defense for Intelligence Oversight

### **Other Defense Organizations**

Director, Defense Intelligence Agency  
Inspector General, Defense Intelligence Agency  
Director, National Geospatial-Intelligence Agency  
Director, National Security Agency

### **Non-Defense Federal Organizations**

Office of the Director of National Intelligence  
Inspector General, Office of the Director of National Intelligence  
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  
Senate Select Committee on Intelligence  
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  
House Permanent Select Committee on Intelligence



# Defense Intelligence Agency Comments



DEFENSE INTELLIGENCE AGENCY  
WASHINGTON, D.C. 20340-5100



U-08-1080/CE

MAY 12 2008

To: Inspector General  
Department of Defense  
400 Army Navy Drive  
Arlington, VA 22202-4704

Subject: Status of Prior Recommendations Related to Defense Intelligence Agency Financial Statements, Project No. D2007 D000FA-0152.000, Draft Report

1. Thank you for conducting this review and providing the Defense Intelligence Agency (DIA) an opportunity to comment on the subject draft report. The report is a useful source of information identifying areas for improvement in DIA management of prior Department of Defense (DoD) Inspector General (IG) audit reports.
2. DIA concurs with the finding that DIA did not have procedures in place to track and monitor the implementation of recommendations made in prior DoD IG reports and with the status of all recommendations and corrective actions as listed in the report.
3. Since the DoD IG review, DIA has established and implemented a system which includes input on all prior audit report findings and recommendations in an online database accessible from DIA's Chief Financial Executive web portal. The database cross references to corrective action plans, shows activity dates, includes information on progress or explanations of delays, and is designed to be updated as significant changes occur. Since the DoD IG recommendation has been implemented, DIA recommends showing this as an action completed and closed as of 14 April 2008.
4. Please refer any questions concerning these comments to Mr. Joseph A. Fasching, Chief Financial Executive, DIA, (703) 695-7646.

  
MICHAEL D. MAPLES  
Lieutenant General, USA  
Director



## **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.

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# Inspector General Department of Defense

