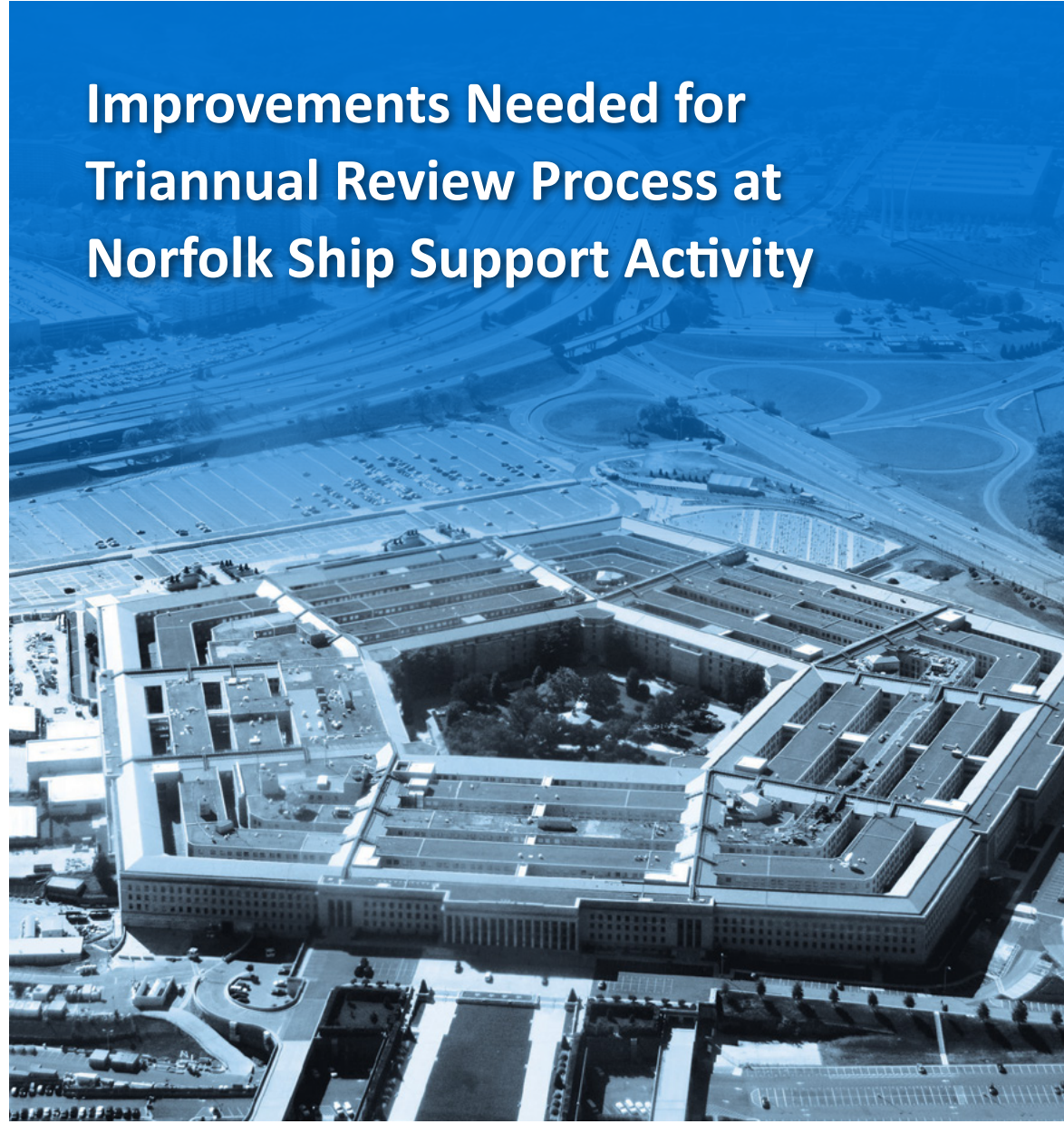




INSPECTOR GENERAL

U.S. Department of Defense

MAY 6, 2014



Improvements Needed for Triannual Review Process at Norfolk Ship Support Activity

INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

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Results in Brief

Improvements Needed for Triannual Review Process at Norfolk Ship Support Activity

May 6, 2014

Objective

Our objective was to determine the accuracy of unliquidated obligations (ULOs) at the Norfolk Ship Support Activity (NSSA) in Norfolk, Virginia. Specifically we assessed whether ULOs certified during the Triannual Review (TAR) process were accurate.

Finding

Of the 75 ULOs we reviewed and NSSA certified as valid during the January and May 2013 TAR periods we found:

- 2 valid ULOs, valued at \$3.9 million,
- 16 invalid ULOs, valued at \$4.5 million, and
- 57 ULOs, valued at \$24.6 million, of unknown validity.

This occurred because:

- personnel who validated ULOs did not understand their roles and responsibilities or receive guidance,
- the NSSA personnel were unaware of reporting exceptions on the confirmation statements, and
- quality reviews were not in place to ensure funds holders perform the TAR.

As a result, NSSA can deobligate \$5 million,¹ and its ULO financial amounts were unsupported. Additionally, the TAR did not provide reasonable assurance that amounts on the Navy Statement of

Finding Continued

Budgetary Resources were stated correctly and did not demonstrate audit readiness.

Recommendations

The Assistant Secretary of the Navy (Financial Management and Comptroller), should:

- develop procedures to address the lack of response and support from stakeholders,
- provide training for all personnel who perform the TAR, and
- implement a quality assurance review to evaluate the effectiveness of the TAR process.

The Commander, U.S. Fleet Forces Command, should perform a quality assurance review that validates subordinate activity TAR submissions and notify appropriate chain of command when personnel at subordinate or external activities do not respond to Triannual Review requests.

The Executive Director, NSSA, should:

- determine whether the ULOs in Appendix B are valid or should be deobligated,
- develop and implement procedures to gather and maintain supporting documentation,
- annotate on the confirmation statement how many ULOs were not reviewed, and
- notify the chain of command when personnel do not respond to TAR requests.

Management Comments and Our Response

Comments from the Assistant Secretary of the Navy (Financial Management and Comptroller) were partially responsive. As a result of comments from the Commander, U.S. Fleet Forces Command, we revised Recommendations 2.a and 2.b. Comments from the Commander, Naval Sea Systems Command, on behalf of the Executive Director, NSSA were responsive. Please see the Recommendations Table on the back of this page.

¹ During the course of the audit, NSSA obtained supporting documents for 17 of the 73 ULOs and deobligated \$4.8 million of the \$5 million we identified. The remaining \$230,000 could have been put to better use if deobligated in a prior period.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Assistant Secretary of the Navy (Financial Management and Comptroller)	1.a, 1.b	1.c
Commander, U.S. Fleet Forces Command	2.a, 2.b	None
Executive Director, Norfolk Ship Support Activity	None	3.a, 3.b, 3.c

Please provide comments by June 5, 2014.



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

May 6, 2014

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/CHIEF
FINANCIAL OFFICER, DOD
NAVAL INSPECTOR GENERAL

SUBJECT: Improvements Needed for Triannual Review Process at Norfolk Ship Support Activity (Report No. DODIG-2014-070)

We are providing this report for review and comment. The Norfolk Ship Support Activity (NSSA) did not comply with DoD requirements when it reviewed unliquidated obligations during the Triannual Review periods ending January and May 2013. NSSA inaccurately reported 73 unliquidated obligations, valued at \$29 million. Of the 73 unliquidated obligations, 16 were invalid, and we were unable to determine the validity of the other 57. During the course of the audit, NSSA obtained supporting documents for 17 of the 73 ULOs and deobligated \$4.8 million of the \$5 million we identified. The remaining \$230,000 could have been put to better use if deobligated in a prior period.

We considered comments from the Assistant Secretary of the Navy (Financial Management and Comptroller), Commander, U.S. Fleet Forces Command, and Commander, Naval Sea Systems Command, when preparing the final report. DoD Directive 7650.3 requires that recommendations be resolved promptly. The comments provided on behalf of the Assistant Secretary of the Navy (Financial Management and Comptroller) were partially responsive. We request additional comments from the Assistant Secretary of the Navy (Financial Management and Comptroller) on Recommendations 1.a and 1.b by June 5, 2014. As a result of management comments, we changed Recommendations 2.a and 2.b. Therefore we request that the Commander, U.S. Fleet Forces Command comment on Recommendations 2.a and 2.b by June 5, 2014.

Please provide comments that conform to the requirements of DoD Directive 7650.3. If possible, send a PDF file containing your comments to audclev@dodig.mil. Copies of the management comments must contain the actual signature of the authorizing official. We are unable to accept the /Signed/ symbol in place of the actual signature. If you arrange to send classified comments electronically, you must send them over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5945 (DSN 664-5945).

A handwritten signature in cursive script that reads "Lorin T. Venable".

Lorin T. Venable, CPA
Assistant Inspector General
Financial Management and Reporting

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Introduction

Objective

Our objective was to determine the accuracy of unliquidated obligations (ULOs) at the Norfolk Ship Support Activity in Norfolk, Virginia. Specifically we assessed whether ULOs certified during the Triannual Review (TAR) process were accurate.²

Background

The Norfolk Ship Support Activity (NSSA) was established in 2009 as an Echelon IV command after the Mid-Atlantic Regional Maintenance Center was disestablished. It is one of 23 activities comprising the budget submitting office (BSO) that reports to the Norfolk Naval Shipyard and Regional Maintenance Centers, managed by the U.S. Fleet Forces Command (USFFC) and operated by the Naval Sea Systems Command. NSSA provides contract services for repairs, maintenance, and modernization of surface ships. It manages financial accounting, which includes budget execution, accounting, payroll, and financial data analysis and reporting. NSSA primarily uses the Standard Accounting and Reporting System (STARS) to accomplish its financial management responsibilities.

DoD Regulation 7000.14-R, “DoD Financial Management Regulation” (DoD FMR), volume 3, chapter 8, “Standards for Recording and Reviewing Commitments and Obligations,” defines the TAR process as an internal control practice used to assess whether obligations recorded are bona fide needs of the appropriations charged. According to DoD FMR, volume 3, chapter 11, “Standards for Recording and Reviewing Commitments and Obligations,” obligations are defined as “amounts of orders placed, contracts awarded, services received, and similar transactions during an accounting period that will require payment during the same, or a future, period.” An obligation is considered “unliquidated” if it has not been fully paid off or adjusted by contract modifications. According to the memorandum issued by the Deputy Chief Financial Officer, Office of the Under Secretary of Defense, “Accounting Policy Update for Triannual Review of Obligations and Unfilled Orders,” February 28, 2013, “the goal in performing the TAR is to increase the Component’s ability to use available appropriations before they expire and ensure remaining open obligations are fairly stated and valid.” Furthermore, to support audit readiness, the TAR must be adequately documented, and supporting documentation must be maintained for

² Our announced objective was to determine the accuracy of ULOs. Throughout the report, we use the term validity because we also considered the ongoing need for the ULOs.

2 years after cancellation of the related appropriation. The Assistant Secretary of the Navy (Financial Management and Comptroller) (ASN[FM&C]) allows the BSOs to determine how they accomplish the TAR.

Triannual Review Process

To accomplish the TAR, funds holders, with assistance from supporting accounting offices and contracting and technical personnel (stakeholders), should review ULOs 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. In addition, funds holders should review all obligations at least annually and initiate actions to resolve ULOs as appropriate. Obligations are considered dormant if no adjustments, contract modifications, disbursements, or withdrawals occur for 120 days, or if contracts are physically complete and for which the period of performance has expired.

The TAR begins when USFFC provides its activities, including NSSA, with a list of direct and reimbursable ULOs equal to or greater than \$50,000 and 120-days dormant for each of the TAR periods. USFFC extracts a list of ULOs from the Command Financial Management System, which loads data from STARS. NSSA financial management personnel e-mail requests to personnel in either NSSA or external stakeholders to review the ULOs for timeliness, accuracy, completeness, and to assess whether there is an ongoing need for the obligations charged to the appropriations. If the ULOs are no longer needed, the funds should be deobligated. Funds holders are required to maintain sufficient documentation to permit independent organizations to verify that the reviews were accomplished as required for a period of 24 months following the completion of the review. This documentation should show the level of review, determining factors, and resultant actions reflecting the due diligence performed by the funds holder. NSSA should compile the results of the review, complete a formal signed confirmation statement regarding the accuracy and completeness of the recorded amounts, and send the results of the TAR to USFFC. USFFC combines the confirmation statement from NSSA with the other activities in the BSO and provides the results to the ASN(FM&C). The ASN(FM&C) combines the confirmation statements from each BSO and provides them to the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD.

For the TAR period ending January 31, 2013, USFFC provided NSSA with a sample of 358 ULOs, valued at \$93.7 million, for validation. USFFC provided NSSA with a

complete list of all 3,058 ULOs, valued at \$91.4 million,³ for the TAR period ending May 31, 2013. At the end of each of the January and May TAR periods, NSSA confirmed that all ULOs were reviewed and valid.

Review of Internal Controls

DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013, requires DoD organizations to implement a comprehensive system of internal controls providing reasonable assurance programs are operating as intended and to evaluate the effectiveness of the controls. We determined that internal control weaknesses existed at USFFC and NSSA regarding the TAR process to validate the continued need of ULOs. The Commander, USFFC, and Executive Director, NSSA, did not adequately oversee the TAR process. NSSA did not receive or maintain adequate documentation to support the ongoing need for the obligations. In addition, the NSSA Financial Management Officer certified the TAR as valid even though the external stakeholders for several ULOs did not provide adequate responses. We will provide a copy of the report to the senior official responsible for internal controls in the Department of the Navy.

³ If ULOs are 120-days dormant in two or more of the TAR periods, they may be reviewed in more than one TAR period.

Finding

Improvements Needed to Controls Over Unliquidated Obligations

The NSSA Financial Management Officer certified ULOs that were invalid, not reviewed, and not supported during the January and May 2013 TAR periods. Of the 75 certified ULOs reviewed, 2 ULOs, valued at \$3.9 million, were valid. Of the remaining 73 ULOs, the NSSA Financial Management Officer certified 16 invalid ULOs, valued at \$4.5 million, and 57 ULOs, valued at \$24.6 million, without sufficient documentation to support their validity. This occurred because the NSSA and external stakeholder personnel who reviewed the ULOs did not understand their roles and responsibilities during the TAR. The NSSA Financial Management Officer was unaware of the ability to report exceptions on the confirmation statement regarding ULOs not reviewed during the TAR periods. In addition, ASN(FM&C) did not develop procedures to perform quality reviews to ensure performance of the TAR as required. As a result, NSSA can deobligate \$5 million,⁴ and its ULO financial amounts were unsupported. The TAR internal control did not provide reasonable assurance that amounts on the Navy Statement of Budgetary Resources (SBR) were stated correctly and did not demonstrate audit readiness.

⁴ During the course of the audit, NSSA obtained supporting documents for 17 of the 73 ULOs and deobligated \$4.8 million of the \$5 million we identified. The remaining \$230,000 could have been put to better use if deobligated in a prior period.

Valid Obligations That Were Accurately Reported

Of the 75 certified ULOs we nonstatistically sampled, the NSSA Financial Management Officer accurately reported 2 ULOs, valued at \$3.9 million, as valid on the confirmation statement. According to DoD FMR volume 3, chapter 8, and a memorandum from USFFC, ULOs are valid when documentation demonstrates that the goods and services are outstanding and the funding level is sufficient to support the ongoing need for the obligations. An external stakeholder provided documentation to NSSA during the TAR that supported the amount and the ongoing need for funds for two valid ULOs. For example, the supporting documentation for the ULOs regarding technical and engineering support, contained billing history reports to support the amounts and ongoing need for the ULOs.

Unliquidated Obligations Were Inaccurately Reported as Valid

Of the remaining 73 ULOs, the NSSA Financial Management Officer certified 16 invalid ULOs, valued at \$4.5 million, and 57 ULOs with unknown validity, valued at \$24.6 million, as valid on the confirmation statement. If NSSA provided documentation that supported that either the value reported on the TAR was incorrect or there was no longer a need for the ULO, we considered a ULO invalid. We also considered a ULO invalid when NSSA deobligated ULOs around the time of the TAR period or during the audit and did not note exceptions for those ULOs on the confirmation statement.

As part of the TAR process, NSSA personnel sent requests to stakeholders to obtain the status of funds; however, in many cases they received no response. Therefore, the stakeholders did not review those ULOs as required by DoD FMR volume 3, chapter 8. NSSA received a response for some ULOs; however the documentation did not demonstrate that goods and services were outstanding or that the funding level supported the ongoing need.

Invalid Unliquidated Obligations Were Inaccurately Reported as Valid

The NSSA Financial Management Officer certified 16 ULOs, valued at \$4.5 million, as valid on the January and May 2013 TAR confirmation statements, when in fact, they were invalid. NSSA stakeholders did not respond for 7 of the 16 ULOs, valued at \$3.4 million. However, the NSSA Financial Management Officer certified these seven ULOs as valid even though the stakeholders did not provide documentation to support their validity. For example, NSSA reported a ULO for engineering services, valued at \$97,000, as valid on the January 2013 TAR. However, the supporting documentation showed that external stakeholders did not respond to NSSA's data request. As a result of our question on this ULO, NSSA contacted the contractor in May 2013 to determine the status of the ULO. The contractor indicated that the contract was complete. Therefore on June 5, 2013, NSSA deobligated the remaining ULO balance of \$97,000.

In addition, NSSA personnel did not receive sufficient documentation to support the validity of the remaining nine ULOs, valued at \$1.1 million. NSSA personnel received responses from stakeholders for nine ULOs and reported the ULOs as valid. However, the supporting documentation did not support the ULOs because it did not

demonstrate a continued need for the funds as required by DoD FMR volume 3, chapter 8. For example, NSSA reported a ULO, valued at \$90,000, for ship repairs as valid. The external stakeholder provided an inconclusive response stating, “all funds placed on contract.” This response did not confirm the ongoing need for the obligation. The NSSA Financial Management Officer stated that NSSA personnel did not make conclusions based on these types of responses but looked for yes or no responses to whether the funds were needed. The NSSA personnel did not follow up to request a clear answer with supporting documentation and reported the ULO as valid. Again, based on our questions regarding this ULO, NSSA personnel conducted additional research and identified a contract modification, dated January 3, 2011, that decreased the obligation from \$90,000 to \$0. The ULO amount of \$90,000 was deobligated in May 2013. This ULO was dormant for over 2 years. Several other invalid ULOs also remained dormant and reported on the Navy financial statements for extended periods. See Table 1 for the number and dormancy of invalid ULOs.

Table 1. Dormancy of Invalid Unliquidated Obligations for the January and May 2013 Triannual Reviews

Dormancy Length	Number of Inactive Invalid ULOs	Value of Inactive Invalid ULOs
4 months (120 days) through 1 year	6	\$ 2,900,000
1 through 2 years	4	430,000
2 through 3 years	4	1,100,000
3 through 4 years	1	55,000
Over 4 years	1	10,000
Total	16	\$ 4,495,000

Unliquidated Obligations With Unknown Validity Reported as Valid

The NSSA Financial Management Officer certified 57 ULOs, valued at \$24.6 million, as valid on the January and May 2013 TAR statements without sufficient documentation to support their validity. Specifically, NSSA personnel did not receive a response for their documentation request from external stakeholders for 45 ULOs, valued at \$16.1 million, for the May 2013 TAR. The supporting documentation for 12 ULOs, valued at \$8.5 million, did not provide enough information to show that they were valid.

Requests for Responses Went Unanswered

For 45 unsupported ULOs, NSSA personnel sent requests to external stakeholders to obtain the status of the funds available for the ULOs for review during the TAR. Even

Even though NSSA personnel did not receive a response for many of the items, the NSSA Financial Management Officer completed the TAR confirmation statement and indicated...the ULOs were reviewed and valid.

though NSSA personnel did not receive a response for many of the items, the NSSA Financial Management Officer completed the TAR confirmation statement and indicated on the form that the ULOs were reviewed and valid. For example, NSSA personnel sent a request for validation of a \$523,000 ULO for a ship repair to points of contact in the NSSA contract department for the May 2013 TAR. This ULO had been dormant for 592 days at the time of the May 2013 TAR. The NSSA contract department did not receive a response regarding the status of the ULO

for this item and noted that in the supporting documentation. However, the NSSA Financial Management Officer signed the TAR confirmation statement, incorrectly certifying that “adequate follow up was conducted on all dormant obligations over 120-days old to determine if the requirement is still valid.” See Table 2 for dormancy of ULOs that lacked responses or support to determine validity.

Table 2. Dormancy of Unliquidated Obligations for Which the Validity Could Not Be Determined for the January and May Triannual Reviews

Dormancy (Length)	Number of ULOs with Unknown Validity	Value of ULOs with Unknown Validity
4 months (120 Days) through 1 year	26	\$15,900,000
1 through 2 years	21	7,000,000
2 through 3 years	7	1,600,000
3 through 4 years	1	22,000
Over 4 years	2	70,000
Total	57*	\$24,592,000

* After the TAR, we obtained information and determined that 3 of the 57 ULOs were valid.

Because the external stakeholders did not respond to the NSSA request for information, NSSA could not establish the validity of this ULO and others. Without a supported response to the TAR, we could not determine the validity of the ULO. Other activities under the USFFC BSO provided additional information, such as

exception reports, regarding ULOs they were not able to review and the reasons they could not review them. NSSA did not provide exception reports with its TAR certification. The NSSA Financial Management Officer should have indicated on the TAR confirmation statement that the ULO was not reviewed and that the validity could not be determined.

Supporting Documentation Insufficient

NSSA personnel received responses to the TAR request for 12 ULOs; however, the supporting documentation accompanying the responses did not demonstrate a continued need for the funds as required by DoD FMR volume 3, chapter 8. For example, NSSA certified a ULO, valued at \$550,000, for a ship repair that was reported as valid on the January 2013 TAR. This ULO had been dormant for 617 days at the time of the January 2013 TAR. The external stakeholder responded to the TAR and provided supporting documentation. However, the documentation did not support the ongoing need for the funds. In another example, NSSA reported a ULO, valued at \$8,000, also for ship repairs, as valid on the May 2013 TAR. The contractors responded, "Contract waiting for final invoice" on June 12, 2013. However, there was no documentation to support the contractor's response or to demonstrate that the external stakeholder reviewed the ULO or that there was still a need for the funds. NSSA personnel and its external stakeholders did not perform a complete review in accordance with DoD FMR volume 3, chapter 8, nor did they provide reasonable assurance that the obligations were auditable. The NSSA Financial Management Officer should review the 54 ULOs for which the validity could not be determined and take appropriate action to deobligate if necessary.

Lack of Due Diligence

When performing the TAR, NSSA personnel did not always receive sufficient supporting documentation from stakeholders or maintain the documentation to support that a ULO was valid. This occurred because NSSA and stakeholder personnel who validated ULOs did not understand their roles and responsibilities during the TAR. NSSA personnel believed signing the confirmation statement meant NSSA did everything it could to check the validity of the ULOs. The NSSA Financial Management Officer certified the confirmation statement indicating adequate follow up was performed to determine if the ULOs were still valid although a significant portion of the ULOs were not supported as valid. NSSA personnel were unaware of their responsibility to report exceptions with the confirmation statement when stakeholders were unresponsive and a thorough review of ULOs

was not performed during the TAR periods. NSSA and its external stakeholders should receive training on their TAR responsibilities. In addition, NSSA and external stakeholders should perform due diligence in gathering and maintaining support demonstrating the level of review determining factors and resultant actions for and reviewing ULOs. Furthermore, NSSA should develop and implement procedures to gather documentation from the TAR that supports the validation of the ULO and maintain the documentation for 24 months as required by DoD FMR volume 3, chapter 8. NSSA should include an exception report with the TAR confirmation statement when adequate review is not performed. The exception report should include information such as ULOs not reviewed and stakeholders that are not responsive to the TAR request.

In addition, ASN(FM&C) did not implement a review to ensure that the TAR is performed and the results reported as required. Additionally, there was no consequence for external stakeholder personnel who did not respond to the NSSA TAR requests. ASN(FM&C) should determine accountability measures for those external stakeholders that do not respond to TAR requests. To provide assurance to the BSO TAR confirmation statement, USFFC should perform a quality assurance review of the results of subordinate activity submissions.

Impact on Use of Funding and Financial Statements

The lack of internal control increases the risk of invalid ULOs and decreases the opportunity to put the funds to better use or return them to the Department of the Treasury. If NSSA performed the TAR as required by the DoD FMR, NSSA would have been able to recover the funds and put them to better use instead of just returning them to the Department of the Treasury. For example, we reviewed two ULOs, valued at \$230,000 that could have been put to better use if appropriate action was taken in prior periods.

The Navy also relies on the TAR for SBR audit readiness. The DoD Financial Improvement and Audit Readiness Directorate defined key capabilities that reporting entities must achieve and sustain to demonstrate SBR audit readiness, including, “Effective Controls Over Recording and Maintaining Obligations.” Audit readiness is defined and measured by the ability of the reporting entity to demonstrate that control activities for recording obligations are suitably designed and operating effectively to provide reasonable assurance that the relevant financial reporting objectives were achieved. Invalid or inaccurately recorded obligations, or dormant obligations that have not been removed, present risks to SBR audit

readiness. These risks can be decreased by ensuring that all obligations and accruals are reviewed, and adjusted as necessary, at least three times per year, as required by DoD FMR, volume 3, chapter 8. For the January and May 2013 TAR periods at NSSA, the lack of a TAR control provided no reasonable assurance that amounts reported on the SBR line, “Undelivered Orders–Obligations, Unpaid,” represented by U.S. Standard General Ledger account 4801, were accurate and supported. Misstated amounts reported on this line will affect the accuracy of future periods because the 4801 account does not close at year-end. ASN(FM&C) should implement a quality assurance review program that will evaluate the effectiveness for the Triannual Review process and the validity and sufficiency of supporting documentation in accordance with the Deputy Chief Financial Officer, Office of the Under Secretary of Defense February 28, 2013, memorandum.

Management Actions

Since we began this audit, NSSA obtained supporting documentation and deobligated 17 ULOs, valued at \$4.8 million, of the 75 ULOs reviewed. As a result of the audit, seven ULOs, valued at \$1.2 million, were deobligated. As a result of the TAR, the remaining ten ULOs, valued at \$3.6 million, were deobligated but reported as valid on the TAR confirmations statements.

Management Comments on the Finding and Our Response

Management Comments on Norfolk Ship Support Activity Deputy Comptroller Title Used

The Commander, U.S. Fleet Forces Command, suggested changing the title, “Norfolk Ship Support Activity Deputy Comptroller.” The Secretary of the Navy Instruction 7000.27b, states the Comptroller title is reserved for activities that hold 1517 Statute Authority. The Norfolk Ship Support Activity does not currently hold 1517 Authority. Therefore, the title of Norfolk Ship Support Activity Deputy Comptroller should be changed to Norfolk Ship Support Activity Financial Management Officer. The commander also suggested changing “She was unaware of reporting exceptions with the confirmation statement when stakeholders were unresponsive and a thorough review of unliquidated obligations was not performed during the Triannual periods” to, “Norfolk Ship Support Activity personnel were unaware of their ability to report exceptions with the confirmation statement when stakeholders were unresponsive and a thorough review of unliquidated obligations was not performed during the Triannual Review periods.”

Our Response

As a result of management comments, we revised the report to say, “Norfolk Ship Support Activity Financial Management Officer.” We also revised the report to say, “Norfolk Ship Support Activity personnel were unaware of their ability to report exceptions with the confirmation statement when stakeholders were unresponsive and a thorough review of unliquidated obligations was not performed during the Triannual Review periods.”

Management Comments on Authority

The Commander, Naval Sea Systems Command, agreed with the finding in principle and provided the following comments on the finding. He asked that we consider that the Norfolk Ship Support Activity Financial Department does not have the authority to deobligate funds based on lack of response or inadequate responses from external stakeholders. The Norfolk Ship Support Activity Financial Department relies on current information provided by external stakeholders to validate unliquidated obligations and does not have the authority to force external stakeholders to comply with the Triannual Review process. In addition, the two-week timeframe to complete the Triannual Review was not adequate to contact the appropriate personnel for validation and that it affects U.S. Fleet Material and Combat Readiness on a global scale. He added that the Norfolk Ship Support Activity Financial Department cannot set aside the day-to-day operational requirements to focus its priority on the Triannual Review.

Our Response

We agree with the commander’s position that the Norfolk Ship Support Activity Financial Department does not have the authority to deobligate funds based on lack of response or inadequate responses from external stakeholders. We identified 57 unliquidated obligations for which we could not determine the validity based on the supporting documentation and recommended the Norfolk Ship Support Activity perform further research into these items. We do not recommend deobligation of unliquidated obligations without documentation, such as contract modifications.

The 14 working day timeframe is required by DoD FMR volume 3, chapter 8, “Standards for Recording and Reviewing Commitments and Obligations.” Norfolk Ship Support Activity personnel explained that they continuously reviewed unliquidated obligations. However, the results of the audit did not support this, and they did not provide documentation of communication supporting the validity of the unliquidated obligations at different times throughout the fiscal year that demonstrated an ongoing review. The Deputy Chief Financial Officer, Office of the Under Secretary

of Defense, "Accounting Policy Update for Triannual Review of Obligations and Unfilled Orders," February 28, 2013, states that financial reports did not reflect the status of obligations because Triannual Reviews were not completed or documented. Ongoing, close collaboration is encouraged by the Deputy Chief Financial Officer to improve the accuracy of reported obligation amounts and would improve the ability to accomplish the review within the specified timeframe.

Recommendations, Management Comments, and Our Response

Revised Recommendations

As a result of management comments, we revised Recommendations 2.a and 2.b to clarify the nature of the actions needed to improve performance of the Triannual Review and address personnel who do not respond to the Triannual Review requests.

Recommendation 1

We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller):

- a. Develop procedures, in conjunction with the U.S. Fleet Forces Command and other subordinate commands, to address the lack of response and support provided by Norfolk Ship Support Activity's stakeholders in responding to Triannual Review requests.**

Assistant Secretary of the Navy (Financial Management and Comptroller) Comments

The Director, Program/Budget Coordination Division, responding for the Assistant Secretary of the Navy (Financial Management and Comptroller), stated that this recommendation will not significantly improve the response or support provided by non-Navy organizations because the majority of stakeholders, such as Defense Contract Audit Agency, Defense Contract Management Agency, other Government agencies, and contractors, are outside of the Department of the Navy. In addition, she stated the Department of Navy, Department of Army, and Air Force fund holders have identified Defense Contract Audit Agency and Defense Contract Management Agency as the least responsive to their requests for documentation. Therefore, the director proposed that the Office of the Under Secretary of Defense (Comptroller), the

Triannual Review process owner, develop procedures and support training. The revised procedures could be promulgated to the entire DoD financial community through DoD FMR updates.

Our Response

The Director, Program/Budget Coordination Division, responding for the Assistant Secretary of the Navy (Financial Management and Comptroller), did not address the specifics of the recommendation. We agree that the Assistant Secretary of the Navy (Financial Management and Comptroller) does not have the authority to address the lack of response and support provided by non-Navy organizations. However, the majority of the sample items we reviewed included stakeholders within the Department of Navy. During the audit we found that 42 of the 52 stakeholders that did not respond were from Navy activities. The Norfolk Ship Support Activity contract department did not respond to Triannual Review requests for 24 of the 75 unliquidated obligations and other Navy activities did not respond to 18 of 75 unliquidated obligations. The documentation for the only two unliquidated obligations that were fully supported and valid was obtained from a non-DoD agency. The responsibility to direct and manage the financial activities, such as overseeing the management of the annual budget and supporting processes is part of the Assistant Secretary of the Navy (Financial Management and Comptroller) mission statement. Therefore, to continue to carry out its mission, it is vital for the Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) to develop procedures for all stakeholders to respond to the Triannual Review requests. We request that the director reconsider her position on the recommendation and provide comments on the final report.

- b. Provide training to validate and support the Triannual Review to all personnel responsible for providing input to the Triannual Review, to include what constitutes sufficient source documentation and retention steps.**

Assistant Secretary of the Navy (Financial Management and Comptroller) Comments

The Director, Program/Budget Coordination Division, responding for the Assistant Secretary of the Navy (Financial Management and Comptroller), did not address the specifics of this recommendation. She stated that the Office of Budget [Office of Assistance Secretary of the Navy (Financial Management and Comptroller)] website is available to all personnel responsible for providing input for Department of Navy's Triannual Review and provides links to relevant DoD FMR citations, policy

memorandums, and data files. In addition she said that because the “sufficient source document and retention steps” are in the DoD FMR, which is the authoritative source for source documents and retention requirements this recommendation is duplicative to the DoD FMR requirements and unnecessary. Further, she stated that the Department of Navy believes it is more appropriate for the Office of the Under Secretary of Defense (Comptroller) to initiate additional, targeted, training requirements and promulgate updates to the DoD FMR to the entire DoD financial community because it is the Triannual Review process owner.

Our Response

Comments from the Director, Program/Budget Coordination Division, did not address the specifics of the recommendation and we do not agree that this recommendation is duplicative of the DoD FMR. We are not recommending that the Assistant Secretary develop policy; rather we are recommending that the Assistant Secretary deliver specific training to Department of the Navy financial and non-financial management stakeholders responsible for collaboration on completing the Triannual Reviews to improve the accuracy and validity of reported obligation amounts. The Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) is responsible for Department of the Navy financial management matters and allocation of all appropriations and funds available to the Department of the Navy. It approves and supervises financial management throughout the Department of the Navy for appropriated, non-appropriated and special funds. Furthermore, it provides guidance and directs and coordinates the education, training, and career development of Department of the Navy financial management personnel. Therefore, it is appropriate and necessary for the Assistant Secretary of the Navy (Financial Management and Comptroller) to mandate and provide training on what constitutes sufficient source documentation and retention steps based on the DoD FMR and best practices to subordinate activities. We request the director reconsider her position on the recommendation and provide comments on the final report.

- c. Implement a quality assurance review program that will evaluate the effectiveness for the Triannual Review process and the validity and sufficiency of supporting documentation in accordance with the Deputy Chief Financial Officer, Office of the Under Secretary of Defense February 28, 2013, memorandum.**

Assistant Secretary of the Navy (Financial Management and Comptroller) Comments

The Director, Program/Budget Coordination Division, responding for the Assistant Secretary of the Navy (Financial Management and Comptroller), stated that the Office of Budget and Financial Management Office have been proactive recently in reviewing the DoD Triannual Review inputs for unfilled customer orders. The Office of Budget will work with BSO (Echelon III) comptrollers to expand the analysis of Triannual Review inputs to implement qualitative and quantitative checks in each reported area across all BSOs in the Department of Navy. Furthermore, at least once during the reporting year, each BSO will randomly spot check for two subordinate command (Echelon IV or below) inputs. This spot check will review one percent sampling of the records or documents reported by the subordinate commands during the reporting year. BSOs will alert the Office of Budget on any identified irregularities during the review.

Our Response

Comments from the Director, Program/Budget Coordination Division, addressed all specifics of the recommendation, and no further comments are required.

Recommendation 2

We recommend the Commander, U.S. Fleet Forces Command:

- a. Perform quality assurance reviews developed by Office of Assistant Secretary of the Navy (Financial Management and Comptroller) (Office of Budget) that independently validates that subordinate activities are performing the Triannual Review.**
- b. Notify appropriate Commanding Officers when personnel at subordinate or external activities do not respond to Triannual Review requests and notify Executive Directors of subordinate activities of their failure to properly submit their Triannual Review or inaccurately certifying the confirmation statement.**

Recommendation 3

We recommend that the Executive Director, Norfolk Ship Support Activity:

- a. Review the 54 unliquidated obligations listed in Appendix B and determine whether funds should be deobligated.**

Commander, Naval Sea Systems Command Comments

The Commander, Naval Sea Systems Command, agreed on behalf of the Executive Director Norfolk Ship Support Activity. The Acting Norfolk Ship Support Activity Comptroller issued a memorandum directing budget execution and ship repair managers to review the 54 ULOs listed in Appendix B and determine whether funds should be deobligated. The estimated completion date is June 19, 2014.

Our Response

We consider the Commander's comments responsive. No further comments were required.

- b. Develop and implement procedures to gather and maintain supporting documentation for the Triannual Review for 24 months as required by DoD Financial Management Regulation volume 3, chapter 8, "Standards for Recording and Reviewing Commitments and Obligations."**

Commander, Naval Sea Systems Command Comments

The Commander, Naval Sea Systems Command, agreed on behalf of the Executive Director Norfolk Ship Support Activity. The Acting Norfolk Ship Support Activity Comptroller issued a memorandum directing Budget Execution and Ship Repair Managers to develop a process to gather and maintain supporting documentation for the Triannual Review that complies with DoD FMR volume 3, chapter 8, "Standards for Recording and Reviewing Commitments and Obligations." The budget execution and ship repair managers will provide the process to management for review and validation. The estimated completion date is June 19, 2014.

Our Response

We consider the Commander's comments responsive. No further comments are required.

- c. Annotate unliquidated obligations not reviewed during the Triannual Review on the confirmation statement when returning it to U.S. Fleet Forces Command and notify the chain of command when personnel do not respond to the data requests.**

Commander, Naval Sea Systems Command Comments

The Commander, Naval Sea Systems Command, agreed on behalf of the Executive Director Norfolk Ship Support Activity. On February 25, 2014, the Norfolk Ship Support Activity developed a Triannual Review Response, which segregated the responses into three categories: unliquidated obligations with some exceptions, incomplete information, and inadequate or no responses.

Our Response

We consider the Acting Norfolk Ship Support Activity Comptroller's comments responsive. No further comments are required.

Appendix A

Scope and Methodology

We conducted this performance audit from June 2013 through March 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

To accomplish the audit objectives, we met with the following offices and reviewed the following data:

- We communicated with the Office of the Under Secretary of Defense (Comptroller), and ASN(FM&C) Office of Budget, Program/Budget Coordination Division, and Office of Financial Operations, Accounting and Financial Practices and Reporting Division, and visited the U.S. Naval Base offices of USFFC and NSSA in Norfolk, Virginia, to identify the policies and procedures in place for management controls over ULOs, interview personnel involved in the TAR process, and validate the 75 nonstatistically selected ULO balances.
- We reviewed supporting documentation and files used by NSSA to conduct the January and May 2013 TARs to determine whether ULOs certified by NSSA during the review process were accurate. We determined ULOs were invalid if NSSA provided documentation that supported the value reported on the TAR was incorrect, there was no longer a need for the ULO, or STARS did not reflect the recapture of the ULO.
- We reviewed applicable laws and regulations, including DoD FMR volume 3, chapter 8 and Navy TAR policy, to determine the procedures for performing TARs and to identify supporting documentation requirements.
- We interviewed financial, budget, technical, and contract personnel to understand their roles and responsibilities in the TAR process. Invalid ULOs were often identified through interviews with personnel responsible for or key to the sample ULOs.
- For items reviewed, we used STARS and Electronic Document Access to verify the ULO status and obtain contractual documents and modifications related to our nonstatistical sample.

The TAR review for the periods ending January and May 2013 contained 3,416 ULOs:

- NSSA's TAR for the period ending January 31, 2013, consisted of 358 Direct and Reimbursable ULOs, valued at \$93.7 million, from FY 2007 through FY 2012 that were equal to or greater than \$50,000 and 120-days dormant.
- The TAR for the period ending May 31, 2013, consisted of 3,058 Direct and Reimbursable ULOs valued at \$91.4 million FY 2007 through FY 2013 which were greater than \$.01 and 120-days dormant.

From the 3,416 ULOs, we excluded:

- FY 2007, because FY 2007 funds were already canceled,
- FY 2008, because funds would be canceled before we would end this audit,
- FY 2013, because "newly" obligated contracts potentially do not have activity for up to 18 months.

After excluding ULOs for these three fiscal years, our universe of the ULOs from January and May 2013 totaled 2,488 ULOs, valued at \$145.7 million. We focused our review on high-dollar direct and reimbursable ULOs from the January and May 2013 TARs, used criteria from DoD FMR, volume 3, chapter 8, and nonstatistically selected a sample of 75 ULOs valued at \$33 million from direct and reimbursable ULOs.

Use of Computer-Processed Data

We used computer-processed data to perform this audit. USFFC used the Command Financial Management System to extract data that originated in STARS. The Command Financial Management System produced the list of ULOs from which we selected our test sample. To determine if the data was reliable and complete, we reconciled the list of ULOs from the Command Financial Management System to the Department of Navy Triannual Review template. We also interviewed USFFC personnel knowledgeable about the data. Furthermore, we compared the ULO balances from the list obtained from the Command Financial Management System to STARS. We determined no differences existed and obtained sufficient understanding of the data. As a result, the data is sufficiently reliable for the purposes of this report.

Use of Technical Assistance

The DoD Office of Inspector General Quantitative Methods Division advised us on the nonstatistical sampling plan and the presentation of data in the report.

Prior Coverage

During the last 5 years, the Department of Defense Inspector General (DoD IG) issued four reports discussing the obligation of funds for ship maintenance and repair. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/pubs/index.cfm>.

DoD IG

Report No. DODIG-2012-062 “Contractor-Invoice Costs Were Accurate, but DoD Did Not Adequately Track Funding,” March 8, 2012

Report No. D-2010-087 “Weaknesses in Oversight of Naval Sea System Command Ship Maintenance Contract in Southwest Asia,” September 27, 2010

Report No. D-2009-025 “Obligation of Funds for Ship Maintenance and Repair at the U.S. Pacific Fleet Maintenance Activities,” November 26, 2008

Report No. D-2008-083 “Obligation of Funds for Ship Maintenance and Repair at the U.S. Fleet Forces Command Regional Maintenance Centers,” April 25, 2008

Appendix B

Unliquidated Obligations With Unknown Validity

Standard Document Number	ULO Amount	Days Elapsed as of TAR	Sample Item Number
N5005411MD7JC01	\$2,204,653.07	228	18
N5005412MPL0020	2,000,000.00	127	7
N5005412MPMSG14	2,000,000.00	250	19
N5005412MPMSG04	1,000,000.00	306	20
N5005412WRL0257	993,884.03	127	3
N5005410MDM0127	980,991.26	236	21
N4002509MDM0147	949,841.12	482	22
N5005411MDM0039	874,966.05	236	23
N5005410MDM0047	842,337.61	480	25
N5005411MDM0056	779,005.76	236	26
N4002509MDM0040	710,738.52	482	27
N5005411MDJ0001	555,960.07	300	28
N5005411RCX0310	550,000.00	617	2
N5005410RCBA322	546,487.00	900	30
N5005410MDM0100	523,171.46	592	31
N4002509MDM0092	508,518.51	573	32
N5005412MPMSG04	500,000.00	155	12
N5005411RCX0095	468,580.00	305	33
N5005410MDM0042	463,443.49	213	34
N5005411RCX0475	450,000.00	627	36
N4002509MD6A103	449,796.97	208	37
N5005410MDM0008	437,954.72	480	38
N5005411MDM0225	436,614.35	853	35
N5005411MDM0042	428,421.00	271	39
N4002509MDM0114	409,196.37	145	40
N5005412RCX0028	400,000.00	252	41
N5005410MDM0195	331,486.00	377	42
N5005410MDM0028	316,812.62	263	43
N5005411RCX0380	275,000.00	697	44
N5005411MDM0088	256,114.49	263	45

Unliquidated Obligations With Unknown Validity (cont'd)

Standard Document Number	ULO Amount	Days Elapsed as of TAR	Sample Item Number
N4002509MD6HC15	221,096.78	529	46
N5005411RCX0473	221,000.00	625	47
N5005410MDM0087	209,401.30	573	48
N4002511RCMPT09	200,300.00	682	49
N5005410MDM0005	195,072.30	573	50
N4002509MDM0055	164,013.75	805	51
N4002509MDM0073	139,303.95	818	53
N5005412MPL0010	138,000.00	185	9
N4002509MDM0029	123,451.10	818	54
N4002509MD4U008	118,580.77	1088	55
N5005410MDM0198	101,887.56	263	56
N4002509CSNA003	84,900.69	1083	58
N5005410CSNA001	77,504.82	247	59
N4002509MDM0038	66,271.63	482	63
N4002509CSNA002	62,223.22	1512	64
N5005411WRBA177	61,100.50	493	5
N5005410RCMJW31	57,736.58	312	65
N4002512640197	55,386.00	620	67
N5005411MD6A181	55,001.76	620	66
N4002511RCMPT25	50,000.00	305	70
N5005410RCMMG26	24,297.12	173	71
N4002509RCJB283	22,000.00	1452	72
N5005410RCMCW41	18,776.80	682	73
N4002509RCX0074	7,703.96	1496	75

Management Comments

Assistant Secretary of the Navy (Financial Management and Comptroller) Comments



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

APR 09 2014

MEMORANDUM FOR DEPUTY ASSISTANT INSPECTOR GENERAL
(FINANCIAL MANAGEMENT AND REPORTING)

SUBJECT: Comments on Draft Report in "Improvements Needed for Triannual Review Process at Norfolk Ship Support Activity"

Ref: (a) DoDIG Report Project D2013-D000DE-0180.000 dated 17 March 2014

Encl: (1) OASN (FM&C) comments on Draft DoDIG Report D2013-D000DE-0180.000

In accordance with reference (a) the Office of the Assistant Secretary of Navy (Financial Management & Comptroller) (ASN(FM&C)) provides comments on recommendations pertaining to the Triannual Review Process at Norfolk Ship Support Activity in enclosure (1).

Point of contact for this matter is [REDACTED]

A handwritten signature in cursive script, appearing to read "Mary K. Tompa", is positioned above the printed name.

Mary K. Tompa
Director
Program/Budget Coordination Division

Copy to:
Naval Inspector General

Assistant Secretary of the Navy (Financial Management and Comptroller) Comments (cont'd)

OASN(FM&C) comments on Project No. D2013-D000DE-0180.000

Recommendation 1 (page 10)

We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller):

1.a) Develop procedures, in conjunction with the U.S. Fleet Forces Command and other subordinate commands, to address the lack of response and support provided by Norfolk Ship Support Activity's stakeholders in responding to Tri-Annual Review requests.

Since the majority of "stakeholders" are outside of the Department of the Navy (DoN) sphere of influence (i.e Defense Contract Audit Agency (DCAA), Defense Contract Management Agency (DCMA), other government agencies, and government contractors), this recommendation to enhance Tri-Annual Review procedures and training would not significantly improve the response/support provided by those non-Navy organizations. Specifically, DoN fund holders have identified DCAA and DCMA as the least responsive to their requests for documentation. Additionally, discussions with our counterparts in the Departments of Army and Air Force confirm this same lack of response by Defense-wide organizations. Therefore, the DoN proposes that requiring the Tri-Annual Review process owner, the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)), develop recommended procedures and supporting training would be a more appropriate and effective approach. Formally revised procedures could be promulgated to the entire DoD financial community, through standard OUSD(C) updates to the Department of Defense Financial Management Regulation (DoD FMR).

1.b) Provide training to validate and support the Tri-Annual Review to all personnel responsible for providing input to the Tri-Annual Review, to include what constitutes sufficient source document and retention steps.

To assist fund holders with the conduct of their Tri-Annual reviews, the Office of Budget (OASN(FM&C)(FMB)) website includes a page devoted to the Tri-Annual Review process. This site is available to all personnel responsible for providing input for DoN Tri-Annual Review submissions, and it also provides links to relevant DoD FMR citations, policy memorandums, and data files. Should DoN fund holders require clarification or further guidance, FMB contact information is also available. The DoN Tri-Annual Review website is at: <https://fmbweb1.nmci.navy.mil/exec/Triannualguide.htm>

Regarding specific concerns about what constitutes "sufficient source document and retention steps", the DoD FMR provides links for source documentation and retention requirements (Volume 1, Chapter 9, "Financial Records Retention") and is the authoritative source for source documents and their retention. The DoN believes that this recommendation to provide the same direction as the FMR with respect to source documents and record retention is duplicative, and unnecessary.

More generally, since the Tri-Annual Review process is a Defense-wide requirement, the Department of the Navy (DoN) believes it more appropriate that the Tri-Annual Review process owner, the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)), initiate additional, targeted, training requirements. Revised training requirements would then be formally promulgated to the entire

Enclosure (1)

Assistant Secretary of the Navy (Financial Management and Comptroller) Comments (cont'd)

DoD financial community, through OUSD(C) standard updates to the Department of Defense Financial Management Regulation (DoD FMR), ensuring consistency across the entire Department.

1.c) Implement a quality assurance review program that will evaluate the effectiveness for the Tri-Annual Review process and the validity and sufficiency of supporting documentation in accordance with the Deputy Chief Financial Officer, Office of the Under Secretary of Defense February 28, 2013, memorandum.

OASN(FM&C)(FMB) and OASN(FM&C)(FMO) have been proactive recently in reviewing DoN Tri-Annual review inputs for unfilled customer orders. This focus was driven by OUSD's memo on "Accounting Policy Update for Tri-Annual Review of Obligations and Unfilled Orders" dated 28 February 2013.

OASN(FM&C)(FMB) will work with Budget Submitting Office (BSO) (Echelon III) Comptrollers to expand the analysis of Tri-Annual review inputs. OASN(FM&C)(FMB) will implement qualitative and quantitative checks in each reported area across all BSOs in the Department of the Navy. This effort will serve as an overall quality check by investigating reporting trends and BSO Comments. Additionally, at least once during the reporting year, each BSO will randomly spot check two subordinate command (Echelon IV or below) inputs. In this spot check, the BSOs will look at a one percent sampling of the records/documents that were reported by the subordinate commands during the reporting year. This expanded review will ensure improved quality of the Tri-Annual review. As irregularities are identified in this expanded review, BSOs will alert OASN(FM&C)(FMB) on the nature of the issues so that all echelons in the Tri-Annual review can be made aware of any questionable practices.

Enclosure (1)

Commander, U.S. Fleet Forces Command Comments



DEPARTMENT OF THE NAVY
COMMANDER
U.S. FLEET FORCES COMMAND
1502 MITSCHER AVENUE, SUITE 250
NORFOLK, VA 23551-2487

7000
SER N02F/0595
11 Apr 14

From: Commander, U.S. Fleet Forces Command
To: Inspector General, U.S. Department of Defense
4800 Mark Center Drive, Alexandria, VA 22350-1500

Subj: COMMENTS ON DRAFT REPORT "IMPROVEMENTS NEEDED FOR
TRIENNIAL REVIEW PROCESS AT NORFOLK SHIP SUPPORT
ACTIVITY"

Ref: (a) DoDIG Report Project D2013-D000DE-0180.000,
17 Mar 2014

Encl: (1) USFFC comments on Project No. D2013-D000DE-0180.000

1. In accordance with reference (a) U.S. Fleet Forces Command provides comments on the draft report and recommendations pertaining to the Triennial Review Process at Norfolk Ship Support Activity in enclosure (1).

2. Please direct any questions to the US Fleet Forces Audit Liaison [REDACTED]

W T Skinner
WILLIAM T. SKINNER
By direction

Copy to:
NAVAUDSVC

Commander, U.S. Fleet Forces Command Comments (cont'd)

Final Report
Reference

USFFC comments on Project No. D2013-D000DE-0180.000

Requested Changes to Report

1. Change "NSSA Deputy Comptroller" to "NSSA Financial Management Officer".

Within U.S. Fleet Forces Command (USFFC) in accordance with SECNAVINST 7000.27b, Comptroller title is reserved for activities that hold 1517 Statute Authority and all other heads of Financial Offices are designated Financial Management Officers, currently NSSA does not hold 1517 Authority.

2. *Lack of Due Diligence (page 8)*; Change "She was unaware of reporting exceptions with the confirmation statement when stakeholders were unresponsive and a thorough review of ULOs was not performed during the TAR periods." to, "NSSA personnel were unaware of their ability to report exceptions with the confirmation statement when stakeholders were unresponsive and a thorough review of ULOs was not performed during the TAR periods."

3. *Lack of Due Diligence (page 9 para 2)*; remove USFFC from "ASN (FM&C) should determine accountability measures for those external stakeholders with USFFC that do not respond to TAR requests." USFFC has limited influence over external stakeholders, and ASN (FM&C) can implement measures that affect Navy activities.

Recommendation 2 (page 11)

We recommend the Commander, U.S. Fleet Forces Command:

2.a) Develop and implement a quality assurance program that independently validates that subordinate activities are performing the Triannual Review.

USFFC disagrees with recommendation 2.a and request it be removed, recommendation 2.a is duplicative of recommendation 1.c assigned to OASN FM&C. USFFC will adhere to measures implemented by OASN (FM&C) (FMB) for qualitative and quantitative checks of Triannual review.

2.b) Review the performance of personnel at subordinate activities and hold them accountable for not responding to Triannual Review requests and for inaccurately certifying the confirmation statement.

Enclosure (1)

Revised
Recommendation 2a

Commander, U.S. Fleet Forces Command Comments (cont'd)

**Final Report
Reference**

USFFC disagrees with recommendation 2.b and it should be removed. Under Navy Command Structure personnel at subordinate activities should be held accountable by the Commanding Officer of that activity and USFF Comptroller will notify Commands of their failure to properly submit their Triannual Review.

**Revised
Recommendation 2b**

Enclosure (1)

Commander, Naval Sea Systems Command Comments



DEPARTMENT OF THE NAVY
NAVAL SEA SYSTEMS COMMAND
1333 ISAAC HULL AVE SE
WASHINGTON NAVY YARD DC 20376-0001

In Reply to:
7510
Ser 00N2C/067
10 Apr 14

From: Commander, Naval Sea Systems Command (SEA 00N)
To: Naval Inspector General


Subj: IMPROVEMENTS NEEDED FOR TRIANNUAL REVIEW PROCESS AT
NORFOLK SHIP SUPPORT ACTIVITY MARCH 17, 2014 (PROJECT NO.
D2013-D000DE-0180.000)

Ref: (a) DODIG memo of 17 Mar 14

Encl: (1) NSSA ltr 5041 Ser 100CE/0162 of 09 Apr 14

1. In accordance with reference (a), enclosure (1) is submitted. Enclosure (1) is the follow-up responses to recommendations 3.a, 3.b, and 3.c. NAVSEA concurs with these three recommendations.

2. NAVSEAINSGEN POC is [REDACTED]


D.W. LUCAS
By direction

Copy to:
NAVINGEN (N11)
DODIG
NSSA (100CE)

Commander, Naval Sea Systems Command Comments (cont'd)



DEPARTMENT OF THE NAVY
NORFOLK SHIP SUPPORT ACTIVITY
9727 AVIONICS LOOP
NORFOLK VA 23511-2124

7000
Ser 100CE/0162
9 Apr 14

MEMORANDUM FOR INSPECTOR GENERAL OF THE DEPARTMENT OF DEFENSE

Subj: INITIAL RESPONSE TO DOD INSPECTOR GENERAL (DOD IG)
DRAFT REPORT, PROJECT NO. D2013-D000DE-0180.00,
"IMPROVEMENTS NEEDED FOR TRI-ANNUAL REVIEW PROCESS AT
NORFOLK SHIP SUPPORT ACTIVITY OF 17 MARCH 2014

Ref: (a) DOD Inspector General Draft Report, Project No.
D2013-D000DE-0180-000, "Improvements Needed for
Tri-annual Review Process at Norfolk Naval
Shipyard"

Encl: (1) NSSA Initial Response to DOD IG Draft Report,
Project No. D2013-D000DE-0180-000
(2) NSSA Code 600 Memorandum Ser #0003 of 19 Mar 14
(3) NSSA Code 600 Memorandum Ser #0004 of 19 Mar 14
(4) NSSA Tri-annual Review for period ending 31 Jan 14

1. The draft results and recommendations of an audit conducted by the members of your staff of the Tri-annual Financial Review Process at Norfolk Ship Support Activity (NSSA) were provided in reference (a).

2. NSSA's initial comments, responses and Plan of Action and Milestones (POA&M) are provided in enclosure (1). Enclosures (2), (3), and (4) are provided as Objective Quality Evidence.

3. My point of contact on this matter is [REDACTED]


R. D. GOYET, JR.
Acting

Commander, Naval Sea Systems Command Comments (cont'd)

DEPARTMENT OF THE NAVY RESPONSE
TO
DODIG DRAFT REPORT ON
Improvements Needed for Tri-annual Review (TAR) Process
at Norfolk Ship Support Activity
Project No. D2013-D000DE-0180.000

Finding:

75 Unliquidated Obligations (ULOs) were reviewed and NSSA certified as valid during the January and May 2013 TAR periods and the DODIG Audit Team found two valid ULOs, 16 invalid ULOs and 57 ULOs of unknown validity, as a result NSSA can deobligate 5 million dollars.

NSSA's Finding Response:

NSSA concurs with the finding in principle; however, the below statements are submitted for consideration:

(1) The NSSA Financial Department does not have the authority to deobligate funds based on an external stakeholders' lack of a response or an inadequate response. The vast majority of these funding documents are contractually bound and require contract modifications to make any changes to balances.

(2) The NSSA Financial Department does not have the authority to force our external stakeholders' compliance with the TAR process. If an external stakeholder does not comply with the TAR process NSSA has no recourse but to rely on the most recent information provided by the external stakeholder in order to validate the associated ULO.

(3) The TAR process must be completed in a two week timeframe, which does not allow adequate time for external stakeholders to contact vendors, technical POCs, Financial POCs, Contracting Officers, etc. Additionally, this short timeframe is unreasonable based on the nature of our mission, which directly impacts US Fleet Material and Combat Readiness on a global scale. The NSSA Financial Department cannot set aside the day-to-day operational requirements and focus on the TAR as a singular priority.

DODIG Audit Recommendation 3.a.:

Review the 54 unliquidated obligations listed in Appendix B and determine whether funds should be deobligated.

NSSA Response:

NSSA Concur with this recommendation.

The NSSA Acting Comptroller has issued a memorandum, enclosure (2), to the Budget Execution and Ship Repair Branch Managers directing them to review the 54 ULOs listed in Appendix B of reference (a) and

Enclosure (1)

Commander, Naval Sea Systems Command Comments (cont'd)

determine whether funds should be deobligated. Additionally, they are to provide the NSSA Acting Comptroller with a spreadsheet that identifies all unliquidated obligations associated with the 54 documents, specifically identifying document number, ULO Amount, days elapsed as of TAR and a determination of whether funds should be deobligated.

Target completion date is 19 June 2014

DODIG Audit Recommendation 3.b.:

Develop and implement procedures to gather and maintain supporting documentation for the Tri-annual Review for 24 months as required by DoD Financial Management Regulation volume 3, chapter 8, "Standards for Recording and Reviewing Commitments and Obligations."

NSSA Response:

NSSA Concur with this recommendation.

The NSSA Acting Comptroller has issued a memorandum, enclosure (3), to the Budget Execution and Ship Repair Branch Managers directing them to ensure NSSA C600 has developed a process that complies with DOD Financial Management Regulation, Volume 3, Chapter 8, "Standards for Recording and Reviewing Commitments and Obligations" outlined in reference (a) for gathering and maintaining Tri-annual Review supporting documentation. Additionally, they are to provide the NSSA Acting Comptroller with the process for review and validation.

Target completion date is 19 June 2014

DODIG Audit Recommendation 3.c.:

Annotate unliquidated obligations not reviewed during the Tri-annual Review on the confirmation statement when returning it to U.S. Fleet Forces Command and notify the chain of command when personnel do not respond to the data requests.

NSSA Response:

NSSA Concur with this recommendation.

The NSSA Financial Department created a TAR Response that segregates reviewed ULOs into three distinct categories, enclosure (4), which are 1) ULO validations with some exceptions, 2) ULOs with incomplete information, and 3) ULOs with an inadequate response or no response. This format has been vetted and approved by USFFC.

Action completed on 25 Feb 2014

Commander, Naval Sea Systems Command Comments (cont'd)

**Norfolk Ship Support Activity (NSSA)
Financial Management and Support Department Code 600**

SSIC #7302
Date: 19 Mar 2014
Scr # 0003

MEMORANDUM

From: C600 Acting Financial Manager, Patrick Bassett

To: [REDACTED]

Ref: (a) Department of Defense (DOD) Inspector General (IG) Project No. D2013-D000DE-0180.000 "Improvements Needed for Triannual Review Process at Norfolk Ship Support Activity"

Subj: TRIANNUAL REVIEW (TAR) DOCUMENT REVIEW

1. In accordance with recommendation number 3.a. of reference (a), NSSA is to "Review the 54 unliquidated obligations (ULO) listed in appendix b of reference (a) and determine whether funds should be deobligated".
2. I am directing the [REDACTED] to create a spreadsheet that identifies all unliquidated obligations associated with the 54 documents listed in appendix b of reference (a), specifically identifying document number, ULO Amount, days elapsed as of TAR and a determination of whether funds should be deobligated.
3. I am directing the [REDACTED] to lead and coordinate this review and provide the requested spreadsheet by 19 Jun 2014.


P. S. BASSETT
NSSA Acting Financial Manager, Code 600

Enclosure (2)

Commander, Naval Sea Systems Command Comments (cont'd)

**Norfolk Ship Support Activity (NSSA)
Financial Management and Support Department Code 600**

SSIC #7302
Date: 19 Mar 2014
Scr # 0004

MEMORANDUM

From: C600 Acting Financial Manager, Patrick Bassett

To: [REDACTED]

Ref: (a) Department of Defense (DOD) Inspector General (IG) Project No. D2013-D000DE-0180.000 "Improvements Needed for Triannual Review Process at Norfolk Ship Support Activity"

Subj: TRIANNUAL REVIEW (TAR) DOCUMENT REVIEW

1. In accordance with recommendation number 3.b. of reference (a), NSSA is to "Develop and implement procedures to gather and maintain supporting documentation for the Triannual Review for 24 months".
2. I am directing the [REDACTED] to ensure NSSA C600 has developed a process that complies with DOD Financial Management Regulation volume 3, chapter 8, (Standards for Recording and Reviewing Commitments and Obligations) outlined in reference (a) for gathering and maintaining Tri Annual Review supporting documentation.
3. I am directing the [REDACTED] to lead and coordinate this action and provide the requested process by 19 Jun 2014.



P. S. BASSETT
NSSA Acting Financial Manager, Code 600

Enclosure (3)

Acronyms and Abbreviations

ASN(FM&C)	Assistant Secretary of the Navy (Financial Management and Comptroller)
BSO	Budget Submitting Office
FMR	Financial Management Regulation
NSSA	Norfolk Ship Support Activity
SBR	Statement of Budgetary Resources
STARS	Standard Accounting and Reporting System
TAR	Triannual Review
ULO	Unliquidated Obligation
USFFC	U.S. Fleet Forces Command



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