



INSPECTOR GENERAL

U.S. Department of Defense

JANUARY 22, 2015



Improvements Needed for Navy's Triannual Review



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Results in Brief

Improvements Needed for Navy's Triannual Review

January 22, 2015

Objective

Our objective was to determine whether the Department of the Navy (DoN) performed its triannual review (TAR) of unliquidated obligations and unfilled orders in accordance with regulations. The audit determined whether the review provided reasonable assurance of the accuracy and validity of balances reported on the financial statements.

Finding

The TAR of obligations (both unliquidated obligations and unfilled orders) did not provide reasonable assurance that the balances reported on the financial statements were accurate and valid. The Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) Office of Budget could not provide a complete list of obligations reviewed for the period ending January 31, 2014, because the office did not have a standard process for compiling the universe of obligations.

Budget submitting offices (BSOs) provided incomplete obligation documentation to the Office of Budget, and the data did not reconcile to the reported amounts on the TAR. This occurred because the Office of Budget did not develop standard procedures for what would constitute adequate TAR supporting documentation.

The Office of Budget did not perform comprehensive reviews of TAR reports or follow up on inconsistencies the BSOs reported. This occurred because the Office of Budget did not conduct proper oversight of the TAR reports.

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Finding (cont'd)

As a result of the Office of Budget's inability to provide a complete list of obligations, its lack of performing comprehensive reviews of the TAR reports, and incomplete obligation documentation, the TAR is not reliable as an internal control. In turn, the reported obligation amounts on the DoN Financial Statements may be misstated. If the DoN cannot rely on the TAR as an effective control for monitoring obligations, upcoming audits of the Schedule of Budgetary Activity will require additional, substantive testing. Secondly, without a reliable TAR process, the Navy cannot promptly identify funds that can be deobligated. As a result, the DON is at risk of allowing funds to expire that the DON could use for other valid purposes.

Recommendations

The Director, Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) Office of Budget should develop standard queries for the BSOs to ensure completeness of data extracted for TARs and conduct comprehensive reviews of the TAR results.

In addition, the Office of Budget should use the U.S. Marine Corps best practices to develop and implement Navy TAR standard procedures to:

- validate that all BSOs consistently extract data on obligations from the Navy accounting systems and include and report the results of the TAR in a standard format;
- compile a universe of obligations for the BSOs to perform the TAR; and
- record the status of each obligation that will identify obligations as valid, canceled, or awaiting review by the Defense Contract Audit Agency.

Management Comments and Our Response

Comments from the Assistant Secretary of the Navy (Financial Management and Comptroller) addressed the specifics of the recommendation, and no further comments are required. Please see the Recommendations Table on the next page.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Director , Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) Office of Budget		1, 2.a, 2.b, 2.c, 2.d, 2.e, and 3



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

January 22, 2015

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

SUBJECT: Improvements Needed for Navy's Triannual Review
(Report No. DODIG-2015-072)

We are providing this report for your information and use. The Department of the Navy Triannual Review process was unreliable, and the related financial statement balances may be incorrect. As a result, the audit of the Statement of Budgetary Activity could be adversely affected, and the Department of the Navy is at risk of allowing funds to expire that could be used for other valid purposes. We conducted this audit in accordance with generally accepted government auditing standards.

We considered comments on the draft of this report when preparing the final report. Management comments conformed to the requirements of DoD Directive 7650.3. Comments from the Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) addressed the specifics of the recommendations; therefore, we do not require additional comments.

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 whether the Department of the Navy (DoN) performed the triannual review of obligations—both unliquidated obligations (ULOs) and unfilled orders—in accordance with regulations. Specifically, we determined whether the review provided reasonable assurance of the accuracy and validity of balances reported on the financial statements. See Appendix for the Scope and Methodology and Prior Audit Coverage.

Background

According to the DoD Financial Management Regulation (FMR)¹, the triannual review (TAR) is an internal control practice to assess whether obligations recorded are bona fide needs of the appropriations charged. The DoD FMR defines obligations 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” or “dormant” if it has not been fully paid or if there have been at least 120 days since its last activity, such as contract modification or payment.² The TAR process is a key control that enables components to use appropriations before they expire and ensure the remaining obligations are fairly stated and valid. A well-executed, well-documented TAR shows that outstanding obligations recorded in the accounting systems are reasonable. However, the component’s ability to execute and document the TAR requires that the funds holder³; accounting, program management, and contracting officers; and acquisitions or logistics personnel effectively coordinate.

The DoN, as stated by the DoN Office of the Assistant Secretary (Financial Management and Comptroller) memo dated July 16, 2013, completed an internal review of the effectiveness of its internal control over financial reporting and identified the TAR, as a corrective action for the following three material weaknesses⁴.

¹ DoD Regulation 7000.14-R, “DoD Financial Management Regulation”, volume 3, chapter 8, “Standards for Recording and Reviewing Commitments and Obligations.”

² DoD Regulation 7000.14-R, “DoD Financial Management Regulation”, volume 3, chapter 11, “Unmatched Disbursements, Negative Unliquidated Obligations, and In-Transit Disbursements.”

³ According to DoD Regulation 7000.14-R, “DoD Financial Management Regulation”, volume 3, chapter 8, “Standards for Recording and Reviewing Commitments and Obligations,” a funds holder is a DoD official who receives funds and is responsible for obligating and managing those funds.

⁴ DoN identified a total of 25 internal control weaknesses.

- The DoN's control environment was not designed or operating effectively to validate reimbursable agreement obligations. There is a risk that the DoN's financial statements do not accurately reflect commitments and obligations, which results in invalid or unauthorized transactions.
- DoN's control environment was not designed or operating effectively to verify undelivered orders and accounts receivables representing valid transactions that are authorized and approved. There is a risk that the DoN's financial statements do not accurately account for undelivered orders or accounts receivables, which could result in invalid and/or unauthorized transactions.
- DoN's internal controls were not designed to effectively monitor if open military standard requisitioning and issue procedures (MILSTRIP) commitments and obligations during the ULO reconciliation process. Because of dollar thresholds, DoN does not review cumulative ULO balances; this causes the financial statements to overstate commitments and obligations.

Triannual Review Process

According to the DoD FMR and an Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) memo on April 10, 2006, DoD and DoN provide guidance for conducting the TAR. The Office of Budget of the Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) is responsible for coordinating the overall evaluation of the DoN budget and budget process to assure the development of a cohesive and balanced program including the TAR. The Office of Budget provides updated guidance each fiscal year, to the budget submitting offices (BSOs)⁵ for use during the upcoming fiscal year's TAR. An Office of Budget analyst notifies each BSO that the review period is starting with the due date for the completed TAR. The BSOs submit their TAR confirmation statements and results of their reviews to the DoN TAR certification site. Once the Office of Budget receives all BSO confirmation statements, it summarizes the TAR results, including any significant Department-wide areas of concern. It then provides the DoN confirmation statement to the Office of the Under Secretary of Defense (Comptroller) within 45 working days after the end of the review period. This statement confirms funds holders have conducted the required obligation review and attests to the accuracy and completeness of the recorded amounts. Funds holders, with assistance from supporting accounting offices, review dormant commitments, obligations, accounts payable, and accounts receivable transactions for timeliness, accuracy, and completeness during each of the 4-month periods ending on January 31, May 31, and September 30 of each fiscal year. In addition, funds holders identify the internal controls used in the review to ensure that the reviews were conducted.

⁵ BSOs are administering offices or commands that are responsible for preparing, compiling, and submitting budget estimates and supporting materials to the Office of Budget.

Budget Submitting Office Procedures

The DoN has 19 BSOs that perform the TAR and report the results to the Office of Budget. These BSOs include the Field Support Activity, Naval Air Systems Command, Naval Facilities Engineering Command, Naval Personnel, U.S. Marine Corps (USMC), and U.S. Pacific Fleet (Pacific Fleet). The BSOs are responsible for communicating TAR requirements and deadlines to their funds holders. BSO comptrollers are required to complete the DoN TAR template, which represents standard reporting requirements for all DoN BSOs. BSO comptrollers also consolidate the results of their funds-holder reviews and complete the formal confirmation statement attesting to the completion of the review and the accuracy and completeness of the recorded amounts. Once each BSO completes the TAR, the BSO uploads its results and confirmation statements to the DoN TAR certification site within 21 working days of the end of each TAR period.

Triannual Review Results

According to TAR reports submitted to the Office of Budget, BSOs reported 1.5 million obligations, totaling \$66.1 million, for the DoN TAR period ending January 31, 2014. The BSOs' TAR reviewed 1.4 million obligations, totaling \$53 million for the period. As a result of the TAR, the BSOs adjusted 23,419 obligations, totaling \$54,000 (net).

DoN BSOs also reported 55,173 unfilled orders, totaling \$3.5 million for the TAR period ending January 31, 2014. The BSOs reviewed 49,813 unfilled orders totaling \$2.6 million. As a result of the TAR, the BSOs adjusted 7,830 unfilled orders, totaling \$(104,000) (net)⁶.

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 that provides reasonable assurance programs are operating as intended and to evaluate the effectiveness of the controls. We determined internal control weaknesses existed at the Office of Budget. The Office of Budget could not provide a list of obligations for the TAR period ending January 31, 2014. The Office of Budget did not provide the BSOs procedures for extracting and compiling the universe of obligations. In addition, the Office of Budget did not perform comprehensive reviews of the TAR process and follow up on inconsistencies reported by the BSOs.

⁶ The \$(104,000) dollar value is negative because some of the unfilled orders were a negative value and when summed with the positive value unfilled orders the total was a negative number.

Finding

Improvements Needed for Navy's Triannual Review

The DoN TAR of obligations (both unliquidated obligations and unfilled orders) did not provide reasonable assurance that balances reported on the financial statements are materially correct. Specifically,

- DoN Office of Budget could not provide a complete list of obligations for the TAR period ending January 31, 2014. This occurred because the Office of Budget did not have a standard process for extracting the universe of obligations at the detailed level for the TAR.
- BSOs provided obligation documentation to the Office of Budget that was incomplete and did not reconcile to the reported numbers and dollar amounts of obligations reviewed for the TAR. This occurred because the Office of Budget did not develop standard procedures for what constituted adequate TAR supporting documentation or perform their own reconciliation of the BSO reports to ensure they were complete and accurate.
- The Office of Budget did not perform comprehensive reviews of the TAR reports, reconcile BSO TAR results, or monitor and follow-up on inconsistencies reported by the BSOs. This occurred because the Office of Budget did not conduct proper oversight of the TAR reports or question BSOs when reports did not contain enough details to understand the results or when the reports were not complete or accurate.

As a result of the Office of Budget's inability to provide a complete list of obligations, its lack of performing comprehensive reviews of the TAR reports, and incomplete obligation documentation, the TAR is not reliable as an internal control. In turn, the reported obligation amounts on the DoN Financial Statements may be misstated. If the DoN cannot rely on the TAR as an effective control for monitoring obligations, upcoming audits of the Schedule of Budgetary Activity will require additional, substantive testing. Secondly, without a reliable TAR process, the Navy cannot promptly identify funds that can be deobligated. As a result, the DON is at risk of allowing funds to expire that the DON could use for other valid purposes.

DoN Lacked a Complete List of Unliquidated Obligations

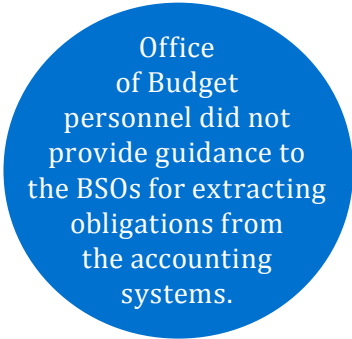
The Office of Budget could not provide a list of all DoN obligations for the TAR period ending January 31, 2014, that met the requirements of DoD FMR volume 3, chapter 8. To obtain the universe, we asked each BSO to provide its respective obligations.

The BSOs provided TAR documentation that was not complete and did not match the number and dollar amounts of obligations reported for the January 31, 2014, TAR. For example, through the Office of Budget, Pacific Fleet provided supporting documentation for only 3 of its 26 subordinate activities. Naval Air Systems Command provided summary-level documentation but not the individual-obligation information that would provide a reconcilable list of obligations. The Office of Budget could not demonstrate their process to track obligations reported on the TAR reports to supporting documentation or whether TAR results from the BSOs could be relied on. Without detailed information, the DoN could not demonstrate that it could provide a complete universe of obligations.

Standard Procedures Needed to Compile a Complete List of Triannual Review Transactions

DoN provided incomplete TAR data because the Office of Budget did not have a standard process for extracting a complete universe of TAR data.

Office of Budget personnel did not provide guidance to the BSOs for extracting obligations from the accounting systems. Before our audit, the Defense Finance and Accounting Service (DFAS)-Cleveland developed a query to extract the obligations for the TAR from the Standard Accounting and Reporting System (STARS), based on direction from DoN Office of Financial Operations and the BSOs. According to DFAS-Cleveland, the query includes obligations from the last 5 years. Each of the seven BSOs that used STARS developed its own query to obtain a list of obligations for the TAR. These BSOs did not use the DFAS query because it did not extract all obligations required for the TAR. For example, the DFAS query did not extract obligations for funds that do not expire. In another example, after the Pacific Fleet received and validated the TAR obligations generated by the DFAS query, it determined the data were incomplete and had to use data extracted by its subordinate activities.



Office of Budget personnel did not provide guidance to the BSOs for extracting obligations from the accounting systems.

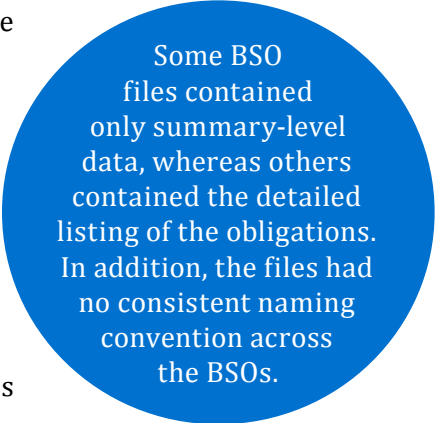
BSOs also, to extract the obligations for the TAR, used other systems that could increase the inconsistency of the data. For example, Naval Facilities Engineering Command extracted obligations for the TAR by querying several systems, such as the Facilities Information System (for military construction for general fund obligations), STARS (for base realignment and closure), and the Defense Working Capital Accounting System. The decentralized process did not provide reasonable assurance of the completeness and accuracy of obligation financial amounts.

The USMC, one of the DoN BSOs, demonstrated a best practice for standardizing the TAR process and compiling the results. The USMC developed detailed standard procedures and actively oversaw the TAR process. The USMC TAR procedures included centralized procedures to extract obligations from the Standard Accounting Budgeting and Reporting System and to provide the obligations for review to each of its 18 commands. The Director, Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) Office of Budget should develop standard queries with the BSOs to ensure completeness of data extracted for TAR reviews and require its use by them. In addition, the Office of Budget should include in the procedures a documented process for the BSOs to compile a universe of obligations to perform the triannual review. Furthermore, the Office of Budget should validate that the BSOs consistently extract data on unliquidated obligations and unfilled orders from the Navy accounting systems when completing the triannual review. Lastly, it should develop and implement procedures to extract obligations for each BSO based on USMC best practices identified from working with USMC personnel.

Budget Submitting Office Documentation Should Be Complete for Triannual Review

BSOs provided obligation documentation to the Office of Budget that was incomplete and did not reconcile to the reported numbers and dollar amounts of obligations reviewed for the TAR. The documentation included varying levels of detail. In some cases, it did not show whether an obligation was reviewed by appropriate personnel. Other documentation did not show the results of the reviews. In addition, some BSOs provided spreadsheets, but other BSOs used PDF files as supporting documentation. These files did not clearly indicate whether the obligations were valid or adjusted, and did not provide the ability to combine or compare the files for analysis. For example, some BSO files

contained only summary-level data, whereas others contained the detailed listing of the obligations. In addition, the files had no consistent naming convention across the BSOs. Because of these inconsistencies, the BSOs did not state whether the obligation was unliquidated or an unfilled order, and the DoN could not provide documentation to reconcile the total quantity and value of obligation records identified or reviewed for the TAR period ending January 31, 2014.



Some BSO files contained only summary-level data, whereas others contained the detailed listing of the obligations. In addition, the files had no consistent naming convention across the BSOs.

Some BSO reviews did not show if the obligation had been reviewed by appropriate personnel or the status of the obligation. For example, a Pacific Fleet activity identified the status of the obligation by hand-writing the status on a paper document, then converting it to a PDF file. In another example, the Field Support Activity provided a spreadsheet that listed obligations but not the status of each one. Likewise, Office of Budget personnel stated that one problem in identifying invalid obligations was that the ULOs they reviewed also included contracts that were completed and waiting for Defense Contract Audit Agency to review them. The Office of Budget stated it is not efficient for the BSOs to review these obligations because the BSOs cannot make adjustments to completed contracts until the Defense Contract Audit Agency review is finished. Being able to combine the results from all of DoN BSOs into one document would give management a documented, repeatable process and allow management to analyze trends over time and isolate inconsistencies.

The BSOs used different formats to record the results of the TAR. However, the USMC BSO provided obligations that were reconcilable to the amounts reported for the January 31, 2014, TAR. On request, USMC personnel provided documentation that was clear and easy to match to a subordinate reporting activity. The document titles were established using a standard naming convention, which enabled us to easily distinguish between the obligations extracted from the accounting system for review and the TAR results. For example, USMC used “reports” to identify the obligations for review and “submission” to identify the results of the TAR. USMC commands used spreadsheets that clearly separated ULOs from unfilled orders. The ULO spreadsheet for each command contained the same name and column headings, so that it was easy to combine ULOs for all the commands into a single document. The documents USMC commands provided used a standard code to identify the status of each reviewed obligation. For example, the USMC used “VAL” to indicate valid, “ADJ” to indicate adjusted, and “CXL” to indicate canceled obligations.

In addition, the USMC developed detailed procedures and actively oversaw the entire process. The USMC TAR guidance included requirements for file-naming conventions and formats for TAR spreadsheets and reports, including standard codes to indicate the status of the obligations. The standardized process and corresponding data consistency provided USMC the ability to use the information to perform analysis and obligation management. By using standard procedures and code structure across all BSOs, like those used by the USMC, DoN could use the information to perform analysis and obligation management and improve auditability of obligations. Being able to combine the results from all of the DoN BSOs into one comprehensive document would provide management the benefit of a documented, repeatable process allowing trend analysis over time to isolate anomalies.

DoN Could Improve Its Standard Procedures for Supporting Documentation

The Office of Budget did not provide BSOs with standard procedures for what constituted adequate supporting documentation when reporting TAR results and the status of each obligation. Each BSO was left to develop its own method of file naming, file structure, and data fields for its supporting documentation. As discussed earlier in the report, the standardized process developed by USMC provided them with data consistency, and the ability to use the TAR information to perform analysis, timely management of unused obligations, and better informed budgeting decisions. The Office of Budget should develop standard naming conventions and formats for TAR reporting based on USMC procedures. In addition, the Office of Budget should develop procedures for the BSOs to properly record the status of each obligation, identifying how many obligations in the DoN are valid, canceled, adjusted, or awaiting contract review by the Defense Contract Audit Agency. Finally, the Office of Budget should require BSOs to prepare and report TAR results with the correct status of each obligation in a standard reporting format, to allow management analysis and decision making and to prevent rework and revalidation of known obligation problems over multiple TAR periods.

Comprehensive Reviews and Followup of TAR Results Needed

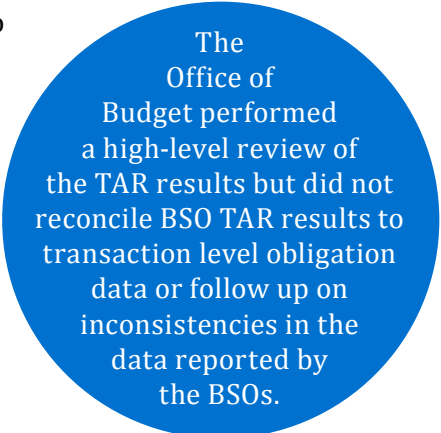
The Office of Budget did not conduct comprehensive reviews, reconcile BSO TAR results, or follow up on inconsistencies reported by the BSOs in their TAR submissions. Instead, it merely compiled the results of the TAR for the DoN. The Office of Budget relied on the BSOs to review and report obligations from their subordinate offices without verifying that the results

contained all the BSOs' obligations for the TAR period. According to the DoD FMR Volume 3, chapter 8, DoN management is responsible for implementing effective internal controls to ensure that the TARs and identified corrective actions are completed in a timely manner.

The Office of Budget performed a basic review of the TAR results reported by the BSOs by comparing the funding amounts they issued to the BSOs with the TAR results reported by the BSOs. However, the total number of records for the period, the records reviewed and not reviewed, and the number and amounts of the adjustments did not reconcile to the funding documents for the period ending January 31, 2014. In addition, the Office of Budget did not conduct comprehensive reviews or discuss with the BSOs their reports when they did not match the TAR results. For example, the Bureau of Naval Personnel reported 23,063 obligations but reported it reviewed 25,556 obligations on the TAR report. An Office of Budget analyst did not know why this BSO reviewed 2,493 more obligations than it reported as its total records, but she agreed it was inconsistent.

Oversight and Followup

The Office of Budget did not perform oversight over the TAR process or investigate any inconsistencies it found during the review, because it did not have a standard process to monitor the results of the TAR reviews conducted by the BSOs. The Office of Budget performed a high-level review of the TAR results but did not reconcile BSO TAR results to transaction level obligation data or follow up on inconsistencies in the data reported by the BSOs. The Office of Budget should conduct reviews of the TAR process and, when it identifies inconsistencies in the TAR reports, conduct a comprehensive review to reconcile the data from the BSO.



The Office of Budget performed a high-level review of the TAR results but did not reconcile BSO TAR results to transaction level obligation data or follow up on inconsistencies in the data reported by the BSOs.

Incomplete and Inconsistent Obligations Data Will Impair Audit Readiness

Because the Office of Budget's TAR process was not complete or consistent, DoN lacks assurance that the balances on the financial statements are materially correct. Without a list of obligations, the DoN cannot perform quality assurance reviews required by the February 2013 memorandum from the Office of the Under Secretary of Defense (Comptroller/Chief Financial Officer). When the TAR is not an effective internal control, the DoN loses the opportunity to use appropriated

funds for other purposes. TAR results that are not well executed and documented could impair the auditability of obligations on DoN's financial statements.

Until the DoN can demonstrate a robust and effective TAR process, its material weaknesses for financial reporting will remain. Effective controls over recording and maintaining obligations would demonstrate DoN's audit readiness for an SBA or SBR. If the TAR cannot be relied on as an internal control, significant testing will be required for future financial audits. For example, there would be an approximately 40-percent decrease in the sample size if the risk assessment decreases from high to moderate. With a smaller sample size for the SBA and SBR audit, the DoN could save money if the TAR provides a good control environment.

Effective controls over recording and maintaining obligations would demonstrate DoN's audit readiness for an SBA or SBR.

Recommendations, Management Comments, and Our Response

We recommend that the Director, Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) Office of Budget:

Recommendation 1

Develop standard queries for the budget submitting offices to ensure completeness of data extracted for triannual reviews.

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

The Assistant Secretary of the Navy (Financial Management and Comptroller) stated that the Office of Budget and Assistant Secretary of the Navy Financial Management Office have been working with the Defense Finance and Accounting Service to develop standardized reports that will be posted to the Department Triannual Review website. The Budget Submitting Offices will be able to access a common report to conduct reviews. The Director anticipates completion by June 30, 2015.

Our Response

Comments from the Assistant Secretary of the Navy (Financial Management and Comptroller) addressed the recommendation, and no further comments are required.

Recommendation 2

Develop and implement Navy triannual review standard procedures, based on U.S. Marine Corps best practices, to:

- a. compile a universe of obligations for the budget submitting offices to use in performing the triannual review;**
- b. validate that the budget submitting offices consistently extract data on unliquidated obligations and unfilled orders from the Navy accounting systems when completing the triannual review;**
- c. prepare and report the results of the triannual review in a standard reporting format;**
- d. record the status of each obligation to identify how many obligations in the Department of the Navy are valid, adjusted, canceled, or awaiting contract review by the Defense Contract Audit Agency; and**
- e. develop standard naming conventions and formats for triannual review reporting.**

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

The Assistant Secretary of the Navy (Financial Management and Comptroller) stated that the Office of Budget and Assistant Secretary of the Navy Financial Management Office have been working with the Defense Finance and Accounting Service to standardize reports along with a website solution discussed above that will provide a collection of obligations for review by the Budget Submitting Offices during the triannual review. The reports will be archived on the website. Further, the Department of the Navy is working with the U.S. Marine Corps, U.S. Air Force, and Navy Financial Management Office to develop a document review application to support the triannual review processes, results, and reporting. The Department is reviewing the Air Force application and will develop a Navy application to handle input by the Navy's four accounting systems. The results of the triannual review will be collected in the Navy Audit ARC Tool. Once the reports described above are web based, the department will establish a common file naming standard.

Our Response

Comments from the Assistant Secretary of the Navy (Financial Management and Comptroller) addressed all specifics of the recommendation, and no further comments are required.

Recommendation 3

Conduct comprehensive reviews, including reconciliations, of the triannual review results and follow up on inconsistencies.

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

The Assistant Secretary of the Navy (Financial Management and Comptroller) stated that Echelon I analysts can perform reviews and comment on the triannual review results and reporting. The responsibility of the process will still remain at the Budget Submitting Office and below. Each level is responsible to conduct reviews and accurately report up the chain of command. The documentation of these reviews will be maintained at the Budget Submitting Office Echelon II and below.

Our Response

Comments from the Assistant Secretary of the Navy (Financial Management and Comptroller) addressed all specifics of the recommendation, and no further comments are required.

Appendix

Scope and Methodology

We conducted this performance audit from April 2014 through November 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.

We began the audit by requesting a list of all TAR obligations the DoN reviewed for the period ended January 31, 2014. Because the Office of Budget could not provide a complete universe of obligations for the period requested, we limited our review to the obligations that were provided by the BSOs and the TAR process. For the purposes of this report, we focused on reviewing ULOs and unfilled orders. When it was not important to distinguish a ULO from an unfilled order, we simply use the term “obligations.”

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

- We met with representatives from the Office of the Under Secretary of Defense (Comptroller), Office of the Assistant Secretary of the Navy (Financial Management and Comptroller), and DFAS–Cleveland to identify and review the policies and procedures in place for management controls over the TAR. We also interviewed personnel from those offices who were involved in the TAR process.
- We also contacted nine DoN BSOs that use STARS or another accounting system to obtain obligations, to understand how they extract obligations to perform the TAR: the Field Support Activity; Naval Facilities Engineering Command; DoN Assistant for Administration Naval Personnel; USMC; Pacific Fleet; Chief of Naval Research; Military Sealift Command; Navy Reserve Force; and the Navy Installations Command.
- We reviewed summary level TAR results for all DoN BSOs. We also selected BSOs that used the three major Navy accounting systems (STARS, the Navy Enterprise Resource Planning System, and the Standard Accounting Budgeting and Reporting System), to extract obligations for the TAR. We reviewed specific files used by Field Support Activity, Naval Air Systems Command, Naval Facilities Engineering Command, Naval Personnel, USMC, and Pacific Fleet to conduct the TAR for the period ending January 31, 2014 to determine the number of obligations identified for review, the number reviewed, and the number of accounting

records adjusted. Because the DoN could not provide the total number of obligations for the TAR, we focused our review on the TAR process.

- We reviewed the DoD FMR volume 3, chapter 8 and DoN TAR policy, to determine the procedures for performing the TAR.

Use of Computer-Processed Data

To perform this audit, we used computer-processed data extracted from the Standard Accounting, Budgeting, and Reporting System; STARS, Field Level and Headquarters; the Facilities Information System; the Navy Enterprise Resource Planning System; Command Financial Management System; and the Military Sealift Command Financial Management System. The obligation data we obtained from the Office of Budget were in the form of Excel spreadsheets and PDF files. We evaluated the reliability of the obligation data by:

- reviewing TAR documentation from the following BSOs that used the three major Navy accounting systems (STARS, Navy Enterprise Resource Planning System, and Standard Accounting, Budgeting and Reporting System), to extract obligations for the TAR: Naval Air Systems Command, Naval Facilities Engineering Command, Naval Personnel, USMC and Pacific Fleet;
- reconciling the documentation containing the total obligations extracted from the accounting systems for review and the total obligations reviewed as a result of the TAR results to the totals reported to the Office of Budget; and
- interviewing Navy personnel knowledgeable about the data to identify what is known about the data and computer processing, in order to determine the completeness of the data.

Since the DoN could not provide a complete universe of ULOs or unfilled orders reviewed for the TAR, we determined that the data was not reliable to select ULOs or unfilled orders for testing. The data reliability issues found are discussed in the finding section of the report.

Prior Coverage

During the last 5 years, the Department of Defense Inspector General issued 1 report discussing the triannual review of unliquidated obligations and unfilled orders. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/pubs/index.cfm>.

DoD IG

Report No. DODIG-2014-070, "Improvements Needed for Triannual Review Process at Norfolk Ship Support Activity," May 6, 2014

Management Comments

Assistant Secretary of the Navy



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

DEC 29 2014

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

SUBJECT: Draft Report on "Improvements Needed for Navy's Triannual Review"

Reference: (a) DoDIG Draft Report Project D2014-D00FS-170.000

In accordance with reference (a), the Office of the Assistant Secretary of Navy (Financial Management and Comptroller) is providing comments on recommendations pertaining to the Navy's Tri-Annual Review Processes per the attachment.

I understand the Department of Defense Inspector General Staff is reviewing additional items within the Navy's Tri-Annual Review. I appreciate and encourage all efforts that assist the Department in improving financial readiness. I understand both of our staffs are engaged and I look forward to the results of the follow-on audit.

My point of contact for this matter is [REDACTED]

A handwritten signature in cursive script, reading "Charles E. Cook III", is positioned above the printed name.

Charles E. Cook III
Acting

Attachment:
As stated

cc:
Under Secretary of Defense Comptroller/Chief Financial Officer
Naval Inspector General
DASN(FMO)
DASN(FMB)

Assistant Secretary of the Navy (cont'd)

ASN(FM&C) comments on Report No. DODIG-2014-070

The following comments are submitted in response to DODIG Report No. D2014-D00FS-170.000 which reviewed the Tri-Annual Review (TAR) processes at Headquarters for the Department of the Navy. The Department thanks the DoDIG staff for conducting this initial in-depth review of the Tri-Annual Review processes and for the work ongoing at three subordinate commands (Project No. D2014-D000FS-0211.000). The Department welcomes this effort, especially as it facilitates our preparedness for the upcoming audit for Schedule of Budgetary Activity (SBA). Your staff's work greatly enhances our own efforts to identify any systemic weaknesses.

During this phase of the Tri-Annual Review audit, weaknesses were noted which called for immediate action, i.e., modification of DFAS Tri-Annual Review reports, re-tooling of the Department's Document Review application, and changes to the Tri-Annual Review checklist and guidance. We are encouraged that DoDIG agreed with our proposed changes in the exit conference of 22 September 2014, and we expect this effort to further increase awareness and competency of our Comptroller staffs.

Again, we look forward to DODIG's effort in the second phase of the Department's Tri-Annual Review audit and to gaining additional insight regarding any systemic issues that may be discovered. We consider this a stepping stone to auditability and improving financial readiness. The lessons learned as a result of the Tri-Annual Review audit will greatly enhance our readiness for the overall Navy audit. The following comments are provided in response to the Draft Report: Improvements Needed for Navy's Triannual Review (Project No. D2014-D000FS-0170.000)

Assistant Secretary of the Navy (cont'd)

Recommendation 1: ASN(FM&C)

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

1. Develop standard queries for the budget submitting offices to ensure completeness of the data extracted for tri-annual reviews.

Since the Audit visit in July 2014, my Staff has developed a DFAS System Change Request (SCR) and coordinated its approval with ASN(FMO) staff and DFAS. The result will be that a common set of Department reports will be received by FMB and will be posted to the Department Tri-Annual review web-site so that BSOs can access one common report monthly for conducting the reviews, versus the current Ad Hoc process that some were using. Separately, the reports will be converted to Microsoft Excell format for ease of use by Navy Budget Submitting Office (BSO) staffs. This strategy was discussed and agreed to at the exit conference. Currently, FMB staff is working with DFAS to establish priority for the report modification and we expect the report to be available no later than the third quarter of 2015.

Recommendation 2: ASN(FM&C)

Develop and implement Navy tri-annual review standard procedures, based on U.S. Marine Corps best practices, to:

2.a) Compile a universe of obligations for the budget submitting offices to use in performing the tri-annual review;.

The updated reports described above will provide the collection of obligations that BSOs are to review in the Tri-annual review. These reports will be available on the Department's web-site and will also be archived for future reference. FMB will develop a separate application that will convert the DFAS reports (Text Format) to more useful Microsoft Excell formats and these files will also be available and archived on the Department web-site. This strategy was discussed and agreed to at the exit conference.

2.b) Validate that the budget submitting offices consistently extract data on unliquidated obligations and unfilled orders from the Navy accounting systems when completing the tri-annual review;.

The updated reports described above will also provide the collection of unliquidated obligations that BSOs are to review in the Tri-annual review. These reports will be available on the Department's web-site and will also be archived for future reference. FMB will develop a separate application that will convert the DFAS reports (Text Format) to more useful Microsoft Excell formats and these files will also be available and archived on the Department web-site. This strategy was discussed and agreed to at the exit conference.

2.c) Prepare and report the results of the tri-annual review in a standard reporting format.

This item is described further in recommendation 2.d below. The Department is in consultation with U.S. Marine Corps, U.S. Air Force and ASN(FMO), and is developing plans for a new Document Review application which will support the Tri-Annual Review processes, results and reporting.

2.d) Record the status of each obligation to identify how many obligations in the Department of the Navy are valid, adjusted, canceled, or awaiting contract review by the Defense Contract Audit Agency.

Assistant Secretary of the Navy (cont'd)

The Department is investigating U.S. Marine Corps and U.S. Air Force applications that accomplish this task. In one case, the Marine Corps application takes the DFAS Tri-Annual Review Reports for Obligations, Unliquidated Obligations, and Unfilled Customer Orders and houses the data in a spread sheet with a status verification. The Air Force application web-bases the information and houses the data in a small database. Based on the volume of transactions expected for the Navy BSOs, the Department is concerned about handling this amount of information in a manual spreadsheet process that the Marine Corps employs. The Department is establishing communication with Air Force to review their application further and then develop a Navy application which can handle the four different accounting systems inputs (STARS, STARS HCM, ERP, and SABRS). Also, as results are collected in the Navy Audit ARC Tool, these results will be used to update document review status for Tri-Annual review since the SBA or Audit would house all documentation, but only for ~5 percent of the collection. This prevents BSOs from having to re-review documents that have already been inspected for the Navy Audit.

Currently the Air Force is also under a DoDIG audit of this Tri-Annual Review, so any recommendations to the Air Force application would be of interest to the Navy's effort. The Department requests DoDIG review the Air Force application and alert the Navy if it considers the Air Force to be unacceptable, or requires additional capability.

2.e) Develop standard naming conventions and formats for Tri-annual review reporting.

Once the products described above are web-based, the Department will establish a common naming standard for files, especially those that will be archived.

Recommendation 3: ASN(FM&C)

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

3. Conduct comprehensive reviews, including reconciliations, of the tri-annual review results and follow up on inconsistencies.

The Department agreed with this standard at the exit conference. While Echelon I analysts can perform reviews and comment on the summarized Tri-Annual Review results and reporting, the fidelity of the process will still remain at the BSOs and below where spot checks will be occurring as well as additional reviews. The process depends on each level conducting its reviews and accurately reporting to the next Echelon of command. The Department wants to manage expectations that detailed document reviews cannot occur at Echelon I because it would not have the documents; which would be housed at the BSO Echelon II and below.

Acronyms and Abbreviations

BSO	Budget Submitting Office
DFAS	Defense Finance and Accounting Service
DoD FMR	DoD Financial Management Regulation
DoN	Department of the Navy
TAR	Triannual Review
STARS	Standard Accounting and Reporting System
ULO	Unliquidated Obligation
USMC	U.S. Marine Corps

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For more information about DoD IG reports or activities, please contact us:

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