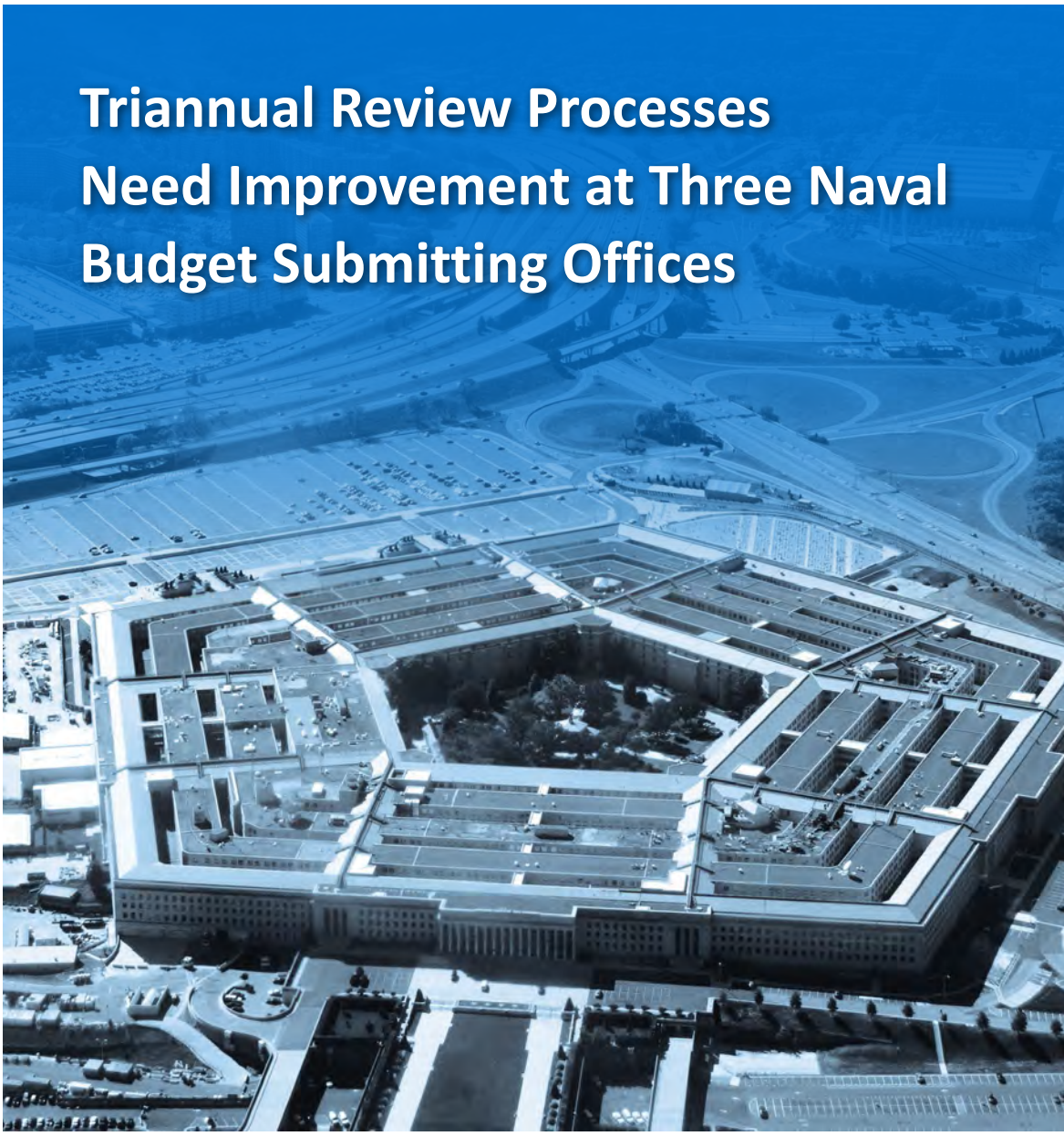
Report No. DODIG-2015-127

INSPECTOR GENERAL

U.S. Department of Defense

MAY 18, 2015

Triannual Review Processes Need Improvement at Three Naval Budget Submitting Offices



INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

Mission

Our mission is to provide independent, relevant, and timely oversight of the Department of Defense that supports the warfighter; promotes accountability, integrity, and efficiency; advises the Secretary of Defense and Congress; and informs the public.

Vision

Our vision is to be a model oversight organization in the Federal Government by leading change, speaking truth, and promoting excellence—a diverse organization, working together as one professional team, recognized as leaders in our field.

For more information about whistleblower protection, please see the inside back cover.

Results in Brief

Triannual Review Processes Need Improvement at Three Naval Budget Submitting Offices

May 18, 2015

Objective

Our objective was to determine whether selected budget submitting offices (BSOs) within the Department of the Navy (DoN) performed the triannual review (TAR) of unliquidated obligations and unfilled orders in accordance with applicable regulations. This is the second of a series of reports on the Navy's TAR.

Finding

Naval Air Systems Command (NAVAIR), U.S. Marine Corps (USMC), and Naval Facilities Engineering Command (NAVFAC) did not support the validity and accuracy of obligations reviewed during the TAR. Specifically, of the 209 nonstatistically selected obligations reviewed, BSO personnel did not have documentation that supported the accuracy and validity of 200 obligations, valued at $201.7 million, for:

- 59 NAVAIR obligations valued at $123.1 million;
- 60 USMC obligations valued at $27.5 million; and
- 81 NAVFAC obligations valued at $51.1 million.

This occurred because the Navy Office of Budget did not issue standard operating procedures for the TAR. NAVAIR, USMC, and NAVFAC did not have standard operating procedures to perform and document the TAR. Each BSO performed its triannual review differently and used different types of documentation that did not support its review. The DoD Financial Management Regulation (DoD FMR) does not specify what

Finding (cont'd)

documents support the TAR. In addition, the Navy Office of Budget did not perform quality assurance reviews to confirm the accuracy and validity of obligations.

As a result of NAVAIR, USMC, and NAVFAC's inability to perform a reliable TAR, DoN may lose the opportunity to use funds for other purposes. The TAR is a key internal control to ensure management has reliable budget information. The auditability of DoN's financial statements could be impaired. When the TAR is not well executed and documented, DoN does not have assurance that the financial reports appropriately reflected the status of the obligations and financial reports including the Schedule of Budgetary Activity currently under audit and information used by management to make decisions is accurate. Until DoN can demonstrate an effective TAR process for which supporting documentation is maintained, its material weaknesses for financial reporting will remain.

Recommendations

The Director, Office of the Under Secretary of Defense (Comptroller) should update DoD FMR, volume 3, chapter 8, to specify what documents are sufficient to support the performance of the TAR.

The Director, Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) Office of Budget should create and implement procedures based on updates to the DoD FMR; train funds holders on their responsibilities; perform quality assurance reviews; and identify corrective actions and train noncompliant BSOs.

Management Comments and Our Response

Comments from Deputy Chief Financial Officer, Office of the Under Secretary of Defense (Comptroller); and the Assistant Secretary of the Navy (Financial Management and Comptroller), responding for the Director of the Office of Budget, addressed the specifics of the recommendations, and no further comments are required. Please see the Recommendations Table on the back of this page.

Recommendations Table

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

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

May 18, 2015

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

SUBJECT: Triannual Review Processes Need Improvement at Three Naval Budget Submitting Offices (Report No. DODIG-2015-127)

We are providing this report for your information and use. This is the second of a series of reports on the Navy's triannual review. The Naval Air Systems Command, U.S. Marine Corps, and Naval Facilities Engineering Command did not support the validity and accuracy of obligations reviewed during the TAR. Of the 209 obligations reviewed, the budget submitting offices did not have documentation to support 200 obligations, valued at $201.7 million. As a result, the Department of the Navy is at risk of allowing funds to expire that could be used for other valid purposes, the related financial statement balances may be incorrect, and the audit of the Schedule of Budgetary Activity could be adversely affected. 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. Comments from the Director, Office of the Under Secretary of Defense (Comptroller); and the Assistant Secretary of the Navy (Financial Management and Comptroller), responding for the Director of the Office of Budget, conformed to the requirements of DoD Instruction 7650.03; 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).

Lorin T. Venable

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

Contents

Introduction

Objective

Our objective was to determine whether selected budget submitting offices (BSOs) within the Department of the Navy (DoN) performed the triannual review (TAR) of unliquidated obligations and unfilled orders[1] in accordance with applicable regulations. Specifically, we determined whether the documentation existed to support the accuracy and validity of unliquidated obligations reviewed for the May 31, 2014, TAR period. This is the second of a series of reports on the Navy's TAR. See Appendix for the Scope and Methodology and Prior Audit Coverage.

Background

According to the DoD Financial Management Regulation (FMR),[2] the TAR is an internal control practice to assess whether obligations recorded are bona fide needs[3] 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.[4]

The TAR process is a key control that enables components to use appropriations before they expire and ensure the remaining obligations are fairly stated on the financial statements 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 holder[5] effectively coordinate with accounting, program management, and contracting officers and acquisitions or logistic personnel.

[1] We use the term obligations to refer to unliquidated obligations and unfilled orders.

[2] DoD Regulation 7000.14-R, "DoD FMR," volume 3, chapter 8, "Standards for Recording and Reviewing Commitments and Obligations."

[3] Bona fide Need is a term used in appropriations law for the legitimate need for an obligation arising in the fiscal year for which the appropriation was made.

[4] DoD Regulation 7000.14-R, "DoD FMR," volume 3, chapter 11, "Unmatched Disbursements, Negative Unliquidated Obligations, and In-Transit Disbursements."

[5] According to DoD Regulation 7000.14-R, "DoD FMR," volume 3, chapter 8, "Standards for Recording and Reviewing Commitments and Obligations," a funds holder is a DoD official who receives funds and obligates and manages those funds.

Research and documentation should be sufficient to provide reasonable assurance that the assets under management can be audited and that prudent and reasonable efforts have been performed to assure the public's trust. In addition, funds holders should maintain documentation that shows the level of review; determining factors and resultant actions that will permit independent organizations, such as the DoD OIG, to verify that the reviews and determining factors were accomplished by all funds holders.

Documents should reference databases, contacts, contracting actions and other tools used to determine due diligence prior to taking action for deobligation. We met with an Office of the Under Secretary of Defense (Comptroller) Senior Staff Accountant, who stated that the supporting documentation should show that there was still a need for the obligation.

DoN, as stated by the Office of the Assistant Secretary (Financial Management and Comptroller) memorandum 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 DoN material weaknesses.[6]

- Control environment was not designed or operating effectively to validate reimbursable agreement obligations. There was a risk that the DoN's financial statements did not accurately reflect commitments and obligations, which could result in invalid or unauthorized transactions.
- Control environment was not designed or operating effectively to verify if undelivered orders and accounts receivables that represented valid transactions were authorized and approved. There was a risk that DoN's financial statements did not accurately account for undelivered orders or accounts receivables, which could result in invalid or unauthorized transactions or both.
- Internal controls were not designed to effectively monitor if open military standard requisitioning and issue procedures commitments and obligations represent a bona fide need during the unliquidated obligations reconciliation process. Because of dollar thresholds, DoN did not review cumulative unliquidated obligations balances, which could cause the financial statements to overstate commitments and obligations.

[6] DoN identified a total of 25 internal control weaknesses.

Triannual Review Process

DoD and DoN provided guidance to conduct the TAR. The Office of Budget of the Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) coordinates the overall evaluation of the DoN budget and budget process to assure the development of a cohesive and balanced program, which includes the TAR. The Office of Budget posts updated TAR guidance on the DoN TAR Certification website each TAR period for the BSOs.

Funds holders prepare statements to confirm that they have conducted the required obligation review, and verified the accuracy and completeness of the recorded amounts. Funds holders, with assistance from supporting accounting offices, should 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.

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 that funds holders have conducted the required obligation review and attests to the accuracy and completeness of the recorded amounts.

Budget Submitting Office Procedures

DoN has 19 BSOs that perform the TAR and report the results to the Office of Budget. These BSOs include the Naval Air Systems Command (NAVAIR), U.S. Marine Corps (USMC), and Naval Facilities Engineering Command (NAVFAC). BSOs notify its funds holders of TAR requirements and deadlines. 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 that verifies the completion of the review and the accuracy and completeness of the recorded amounts.

NAVAIR:

- provides full life-cycle support of naval aviation aircraft, weapons, and systems operated by Sailors and Marines;
- supports Naval Aviation Program Executive Officers and their assigned program managers who are responsible for meeting the cost, schedule, and performance requirements of their assigned programs; and
- uses the following accounting systems:
    - Navy Enterprise Resource Planning (ERP); and
    - Defense Industrial Financial Management System.

USMC:

- delivers combine-arms task forces to global crises and operates under DoN; and
- uses the Standard Accounting, Budgeting, and Reporting System as its official accounting system.

NAVFAC:

- is a global facilities engineering and acquisition command that supports the U.S. Navy, Marine Corps, and other Federal agencies;
- plans, designs, constructs and sustains facilities for commanders, the warfighters, and their families; and
- uses the following accounting systems.
    - Standard Accounting and Reporting System; and
    - Defense Working Capital Accounting System.

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 that programs are operating as intended and to evaluate the effectiveness of the controls. We identified internal control weaknesses at NAVAIR, USMC, and NAVFAC. BSOs could not provide supporting documentation for the obligations reviewed during the May 2014 TAR period. The DoD FMR does not clearly specify what documents are needed to support the TAR. In addition, the Office of Budget did not provide BSOs with standard operating procedures to maintain supporting documentation or quality assurance reviews.

Finding

Triannual Review Processes Needed Improvement at Three Naval Budget Submitting Offices

NAVAIR, USMC, and NAVFAC did not support the validity and accuracy of obligations reviewed during the TAR. Specifically, of the 209 obligations we nonstatistically selected for review, BSO officials did not have documentation to support the accuracy and validity of 200 obligations, valued at $201.7 million, for:

- 59 NAVAIR obligations valued at $123.1 million;
- 60 USMC obligations valued at $27.5 million; and
- 81 NAVFAC obligations valued at $51.1 million.

This occurred because the Navy Office of Budget did not issue standard operating procedures for the supporting documentation that the BSOs must maintain for the TAR. Also, the DoD FMR[7] is not specific on what documentation is required to support the performance of the TAR. In addition, the Navy Office of Budget did not perform quality assurance reviews to confirm the accuracy and validity of obligations.

As a result of the BSOs' inability to provide documentation to support their TAR and the accuracy and validity of its obligations, DoN could make misinformed budgeting decisions. DoN cannot promptly identify funds that could be deobligated and is at risk of allowing funds to expire that could be used for other valid purposes. Consequently, the reported obligation amounts on the DoN Financial Statements may be misstated.

If DoN cannot rely on the TAR as a key control to monitor obligations, the balances on the Schedule of Budgetary Activity could be affected, as well as the efficiency of the audit, as the auditors will likely need to expand their work, which will require increased substantive testing and costs.

[7] DoD FMR, volume 3, chapter 8.

Supporting Documentation Should be Maintained for the Triannual Review

NAVAIR, USMC, and NAVFAC did not maintain adequate documentation when they performed the TAR. Of the 209 obligations reviewed, the BSO funds holders did not maintain supporting documentation for the TAR for 200 obligations, valued at $201.7 million. However, NAVAIR, USMC, and NAVFAC funds holders certified confirmation statements that certified they performed a complete review and retained supporting documentation.

According to the DoD FMR[8] funds holders should document obligations and deobligations to reflect completion of investigation through analysis and review of the requirements and all relevant financial records. Due diligence is the development and maintenance of documentation that includes contract, invoice, disbursement, task monitor notes, correspondence, and all supporting information available to determine compliance with the provisions of this regulation.

NAVAIR, USMC, and NAVFAC provided documentation to support the validity of only nine obligations, valued at $2.8 million. The documentation included screen prints from a logistics system, contract modifications, and recently awarded contracts. However, the validity of 200 obligations was unsupported. Table 1 summarizes the supported and unsupported obligations.

Table 1. Documentation Was Not Maintained to Support the May 2014 Triannual Review

Budget Submitting Office	Documentation Maintained	Value of Obligation (in millions)	Documentation Not Maintained	Value of Obligation (in millions)
NAVAIR	1	$1.8	59	$123.1
USMC	4	0.3	60	27.5
NAVFAC	4	0.7	81	51.1
Total	**9**	**$2.8**	**200**	**$201.7**

Naval Air Systems Command Lacked Supporting Documentation

NAVAIR funds holders did not maintain documentation that supported the accuracy and validity for 59 obligations, valued at $123.1 million, of the 60 obligations reviewed. NAVAIR funds holders provided purchase order history screen prints from Navy ERP and Defense Industrial Fund Management System direct customer screen prints and emails to support the TAR. However, the documentation did not support the continued need for the funds, and it did not show the level of review and determining factors for the reviewed obligations.

[8] DoD FMR volume 3, chapter 8.

According to NAVAIR personnel, they relied on the Navy ERP system to review obligations when they performed the TAR. They explained that Navy ERP is a real-time system; therefore, there was no need to maintain documentation that showed their level of review and determining factors at the time of the review. According to NAVAIR personnel, Navy ERP did not have the capability to capture when the work was completed, what amount was valid, or the amount that could be canceled. If a payment did not occur in FY 2014 or if it was an expired fund, NAVAIR personnel contacted subordinate activity personnel to determine the accuracy and validity of obligations. NAVAIR personnel felt that they fulfilled their due diligence by obtaining responses regarding the accuracy and validity of the obligation. They considered the responses to be supporting documentation for the continued need for the obligation.

For example, NAVAIR funds holders provided documentation to support an obligation for $2.6 million for continuing maintenance and operational support for Naval Air Warfare Center Weapons Division test and evaluation capabilities. The documentation included:

- Navy ERP purchase order screen prints to show expenses incurred during May 2014; and
- an explanation from subordinate activity personnel, in both email and in Word, which stated, this is an expired FY11 funds, line item balance was partially valid, and some funds could be canceled.

However, the documentation did not support how much of the obligation was valid and invalid and what the accurate balance should be in the accounting system. The documentation did not show the continuing need for the obligation and determining factors that canceled some of the obligation at the May 31, 2014, TAR. Upon our request in December 2014, NAVAIR personnel could not provide supporting documentation or explain the amount that could be canceled.

U.S. Marine Corps Lacked Supporting Documentation

Of 64 obligations reviewed, USMC funds holders did not maintain documentation that supported the accuracy and validity of 60 obligations, valued at $27.5 million. USMC personnel provided the following documentation.

- purchase requests for commercial and government supplies and services;
- travel authorizations;
- accounting and logistic system screen prints; and
- memorandums.

Documentation did not support the continued need or determining factors for the obligations.

However, the documentation did not support the continued need or determining factors for the obligations, such as references to databases, contracts, and contracting actions. USMC funds holders determined obligations were valid and provided comments such as "researching" or "canceled" without additional documentation or references. For example, USMC personnel determined an obligation, valued at $4.5 million, was valid during the TAR. However, upon our request for documentation on September 30, 2014, USMC personnel determined the funds were no longer required and provided a memorandum dated October 15, 2014, that stated no documentation was found for the obligation, so it was canceled. This occurred for five other obligations in our sample, for a total of six obligations, valued at $12.7 million.

In another example, USMC personnel provided a purchase request, dated September 2013, which obligated $463,988 to rebuild assets. During the May TAR, USMC personnel determined that the funds were no longer needed, and the obligation should be canceled. However, the document provided did not support that any action was taken by the fund holder to cancel the obligation. Furthermore, the accounting system screen print provided in November 2014 showed that the entire original obligation amount of $463,988 was still in the accounting system and had not been canceled. According to USMC officials, this obligation should have been canceled. However, the USMC business practice was to not report the cancellation until the obligation was deobligated in the accounting system. This process ensured the balance recorded in the accounting system was reported on the financial statements.

Naval Facilities Engineering Command Provided Incomplete Triannual Review Documentation

Of the 85 obligations reviewed, NAVFAC funds holders did not maintain documentation that supported the accuracy and validity for 81 obligations, valued at $51.1 million. NAVFAC funds holder personnel reviewing the validity and accuracy of the obligations provided the following documentation.

- purchase requests for commercial and government supplies and services;
- accounting and logistic system screen prints; and
- billing and accrual schedules.

In some cases, NAVFAC reviewing personnel did not demonstrate they performed a TAR because no comments or remarks were recorded on the document they used to record their results. For other obligations, NAVFAC personnel identified the status of the obligation with comments such as "valid" or "researching" on the TAR review document but did not support the accuracy and continued need of the obligation.

NAVFAC personnel identified the status of the obligation with comments such as "valid" or "researching" on the TAR review document but did not support the accuracy and continued need of the obligation.

For example, NAVFAC personnel reported the status of an obligation for fuel, valued at $115,641, as "researching" on the May 2014 TAR. They provided a contract from FY 2010, but no other documents were provided to demonstrate that there was still a need for the fuel and support the obligation balance in the accounting system. Upon our request for additional documentation, NAVFAC personnel stated the funds were no longer required, but did not provide documentation to deobligate the funds. Additionally, this does not demonstrate that the TAR control was effective, although according to NAVFAC officials, it is NAVFAC's business practice to review 100 percent of its obligations each TAR period and the invalid obligation remained in the accounting system for the last 3½ years.

In another example, NAVFAC personnel reviewed an obligation, valued at $77,384, for modifications to a power substation. NAVFAC personnel determined this obligation was a duplicate and reduced it to zero in August 2014. It was not clear based on the limited documentation whether or not this was determined during the May 2014 TAR period. NAVFAC personnel did not annotate this obligation in the TAR documentation. The obligation remained in the accounting system and was not corrected for over 5 years, which included 15 TARs. According to a payment record provided, the obligation was paid in May 2009. That amount of time was excessive to determine the validity of an obligation.

Guidance, Procedures and Reviews Needed to Improve Triannual Review Processes

BSO funds holders did not maintain documentation because the Office of Budget did not establish standard operating procedures to perform the TAR. In our prior audit,[9] Office of Budget personnel stated that they expected the BSOs to develop their own operating procedures and relied on their subordinate activities to interpret the DoD FMR. NAVAIR, USMC, and NAVFAC did not have standard operating procedures for the performance and documentation of the TAR. Each BSO performed their triannual review differently and used

[9] DoDIG Report No. DODIG-2015-072, "Improvements Needed for Navy's Triannual Review," January 22, 2015.

BSO personnel did not understand their TAR responsibilities regarding how to validate obligations and what supporting documentation should be maintained.

different types of documentation that did not support its review. BSO personnel did not understand their TAR responsibilities regarding how to validate obligations and what supporting documentation should be maintained. The Office of the Secretary of Defense (Comptroller) should revise the DoD FMR to clarify what documents are required to support the TAR. The Office of Budget should establish standard operating procedures to include the BSO personnel responsibilities, specific steps, and types of documentation to perform the TAR and to fully support the obligations. BSO personnel should receive training on their TAR responsibilities. BSO personnel should perform due diligence in gathering and maintaining documentation that demonstrates the level of review and factors considered to determine accuracy and validity of obligations. The documentation should also permit quality assurance reviews by management and independent organizations to verify that the reviews and determining factors were accomplished. The Office of Budget should review all BSOs to determine whether the TAR is effective and the accuracy and validity of the obligations are supported. If the Office of Budget identifies other BSOs that are noncompliant, it should identify corrective actions and provide training to these BSOs.

The Office of Budget did not perform quality assurance reviews of the TAR submissions by the BSOs as required by the February 2013 memorandum from the Office of the Under Secretary of Defense (Comptroller/Chief Financial Officer). 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. It relied on the BSOs to review and report obligations from their subordinate offices without verifying the results. We recommended in our prior audit[10] that the Office of Budget should perform quality assurance reviews to ensure the TAR was performed and documentation supports the accuracy and validity of obligations. The Office of Budget agreed with the recommendation. Therefore, we are not making a recommendation in this report.

Impact of Unreliable Triannual Review

Since NAVAIR, USMC, and NAVFAC did not demonstrate a reliable TAR, DoN may have lost the opportunity to use funds for other purposes. When the TAR is not well executed and documented, DoN does not have assurance that the financial reports appropriately reflect the status of the obligations and the obligations may

[10] DoDIG Report DODIG-2015-072, "Improvements Needed for Navy's Triannual Review," January 22, 2015.

be overstated or understated, including the Schedule of Budgetary Activity that is currently under audit. In addition, DoN does not have assurance financial reports and information used by management to make decisions is accurate. Finally, auditability of DoN's financial statements could be impaired.

The TAR is a key internal control to ensure management has reliable budget information. Until DoN can demonstrate an effective TAR process, which supporting documentation is maintained, its material weaknesses for financial reporting will remain. Effective controls over reviewing and maintaining documentation for obligations would support DoN's audit readiness for the Schedule of Budgetary Activities and Statement of Budgetary Resources. Since the TAR cannot be relied on as a key internal control, the auditors would need to increase their audit testing in this area by as much as 40 percent. This additional audit workload will increase the overall audit cost and increase the level of resources DoN would need to dedicate to supporting the audit effort.

Recommendations, Management Comments, and Our Response

Recommendation 1

We recommend the Director, Office of the Under Secretary of Defense (Comptroller), update DoD Financial Management Regulation Volume 3, Chapter 8 "Standards for Recording and Reviewing Commitments and Obligations" to specify what constitutes sufficient supporting documentation for the performance of the triannual review.

Under Secretary of Defense (Comptroller) Comments

The Deputy Chief Financial Officer, Office of the Under Secretary of Defense (Comptroller) stated that the DoD Financial Management Regulation Volume 3, Chapter 8 is currently under revision and plans to publish the update by September 30, 2015. The revision will define the supporting documentation for validity and accuracy of obligations.

Our Response

Comments from the Deputy Chief Financial Officer addressed all specifics of the recommendation, and no further comments are required.

Recommendation 2

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

a. **Create and implement procedures based on updates to DoD Financial Management Regulation Volume 3, Chapter 8 "Standards for Recording and Reviewing Commitments and Obligations."**

b. **Train Naval Air Systems Command, U.S. Marine Corps, and Naval Facilities Engineering Command and their funds holders on their triannual review responsibilities.**

c. **Perform reviews of all budget submitting offices to determine the effectiveness of implementation of the triannual review.**

d. **Identify corrective actions and provide training for other budget submitting offices found to be noncompliant.**

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), responding for the Director, Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) Office of Budget, expressed appreciation for the three DOD OIG TAR audits and stated that the Navy has made good progress on corrective actions to the recommendations we made in our last audit report on the headquarters TAR processes. She stated that the Navy is making changes to automation, reporting, training, and guidance that will enable them to obtain a common reporting standard and allow for management reviews and analysis. She said the staff reviewed 13 of 19 BSOs and determined all 13 are capable of meeting a consistent TAR reporting standard. The staff are actively meeting with the remaining six BSOs that use STARS, the Navy's legacy accounting system, to determine local automation processes and the cost-benefit and manpower required to implement a TAR reporting standard. Additionally, she stated that the Defense Finance and Accounting Service plans to implement a system change request in July 2015. The change will produce common accounting reports that coupled with the corrective actions above will enable comprehensive reviews and analysis and result in better overall fidelity of the TAR. The Assistant Secretary of the Navy (Financial Management and Comptroller) stated that she considers improvements in this area to be stepping stones to auditability and improving financial readiness.

In responding to the recommendations made in this audit report, the Assistant Secretary of the Navy (Financial Management and Comptroller) agreed with the recommendations. She stated that the Office of Budget staff has coordinated with the Office of the Deputy Chief Management Officer on the potential efforts within the TAR and Office of the Secretary of Defense staff on potential changes to the DoD FMR. After the changes to the DoD FMR are available, the Office of Budget staff will coordinate on the procedural change.

The Assistant Secretary of the Navy (Financial Management and Comptroller) also stated that DoN has completed significant reviews of the BSO processes and applications. She said that the Office of Budget staff will use various approaches to improve awareness of the TAR and its link to daily performance and the Schedule of Budgetary Activity. Specifically, the Office of Budget plans to provide on-line training for all personnel involved in the TAR, conduct training twice per year for TAR subject matter experts, implement a working group, and distribute monthly TAR communications to staff. Additionally, she said that DoN intends to establish a common reporting standard for obligations reviewed during the TAR.

Our Response

Comments from the Assistant Secretary of the Navy addressed all specifics of the recommendation, and no further comments are required. We commend the Navy for the actions taken or planned, to address the recommendations in the three DOD OIG TAR audit reports.

Appendix

Scope and Methodology

We conducted this performance audit from August 2014 through March 2015 in accordance with generally accepted government auditing standards for performance audits. 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 personnel and reviewed data and documentation from NAVAIR, USMC, and NAVFAC.

We analyzed documentation and data provided by NAVAIR, USMC, and NAVFAC to support the May 2014 TAR. We compared the document numbers and amounts to the source documentation and recorded results for each sampled obligation. We determined whether the documentation demonstrated the level of review and determining factors that supported the accuracy and validity of obligations. Specifically, we:

- considered an obligation supported if it included correspondence emails, remarks with references to databases or supporting documentation, or brief narratives with accompanying supporting documentation dated around the May 31, 2014, TAR period;
- reviewed applicable laws and regulations, including DoD FMR, volume 3, chapter 8, to identify supporting documentation requirements;
- discussed the results with personnel from the Office of the Under Secretary of Defense (Comptroller) and clarified the intent of the DoD FMR, volume 3, chapter 8, supporting documentation requirement to support the continued need of the obligations; and
- interviewed personnel from NAVAIR, USMC, and NAVFAC to understand their roles and responsibilities in the TAR process. In addition, we discussed the results of our review and our observations with NAVAIR, NAVFAC, USMC, and the Office of the Assistant Secretary of the Navy Office of Budget personnel.

The following BSOs reported reviewing 218,311 obligations, valued at $49 billion; during the May 2014 TAR period.

- NAVAIR reviewed 131,572 obligation records valued at $40 billion;
- USMC reviewed 56,283 obligation records valued at $2 billion; and
- NAVFAC reviewed 30,456 obligation records valued at $6.7 billion.

We developed a nonstatistical sample and selected 350 obligations for review from a list of obligations from each BSO.

We reviewed obligations from NAVAIR, USMC, and NAVFAC because they represented BSOs that used different Navy accounting systems, Navy ERP and Defense Industrial Financial Management System, Standard Accounting, Budgeting and Reporting System, and Standard Accounting and Reporting System, respectively.

We selected obligations from activities that provided TAR confirmation statements to the NAVAIR, USMC, and NAVFAC. Upon performing the review, we saw trends in the obligations reviewed at NAVAIR and USMC, so we stopped reviewing the obligations before finishing the entire sample. Each NAVFAC activity presented unique situations, so we reviewed all of the selected obligations from NAVFAC. We excluded 15 obligations from the NAVFAC results because the contracts were awarded or modified within 120 days of the May 2014 TAR. We reviewed a total of 209 obligations, valued at $204.5 million: 60 from NAVAIR, 64 from USMC, and 85 from NAVFAC.

Use of Computer-Processed Data

We used computer-processed data to perform this audit. NAVAIR, NAVFAC, and USMC extracted TAR data from different accounting systems:

- NAVAIR extracted data from Navy ERP and Defense Industrial Financial Management System;
- NAVFAC extracted data from the Standard Accounting and Reporting System and Defense Working Capital Accounting System; and
- USMC extracted data from Standard Accounting, Budgeting and Reporting System.

To evaluate the data reliability, we:

- reviewed information about the data and results of audits of the systems that generate the data and determined no significant deficiencies existed to preclude the use of the data; and
- verified data for each sample item in the accounting systems matched data on corresponding source documents.

As a result, we determined the data were sufficiently reliable for the purposes of this report.

Prior Coverage

The Department of Defense Inspector General (DoD IG) issued five reports discussing the obligation of funds and the triannual review. Unrestricted DoD IG reports can be accessed at http://www.dodig.mil/pubs/index.cfm.

DoD IG

Report No. DODIG-2015-072, "Improvements Needed for Navy's Triannual Review," January 22, 2015

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

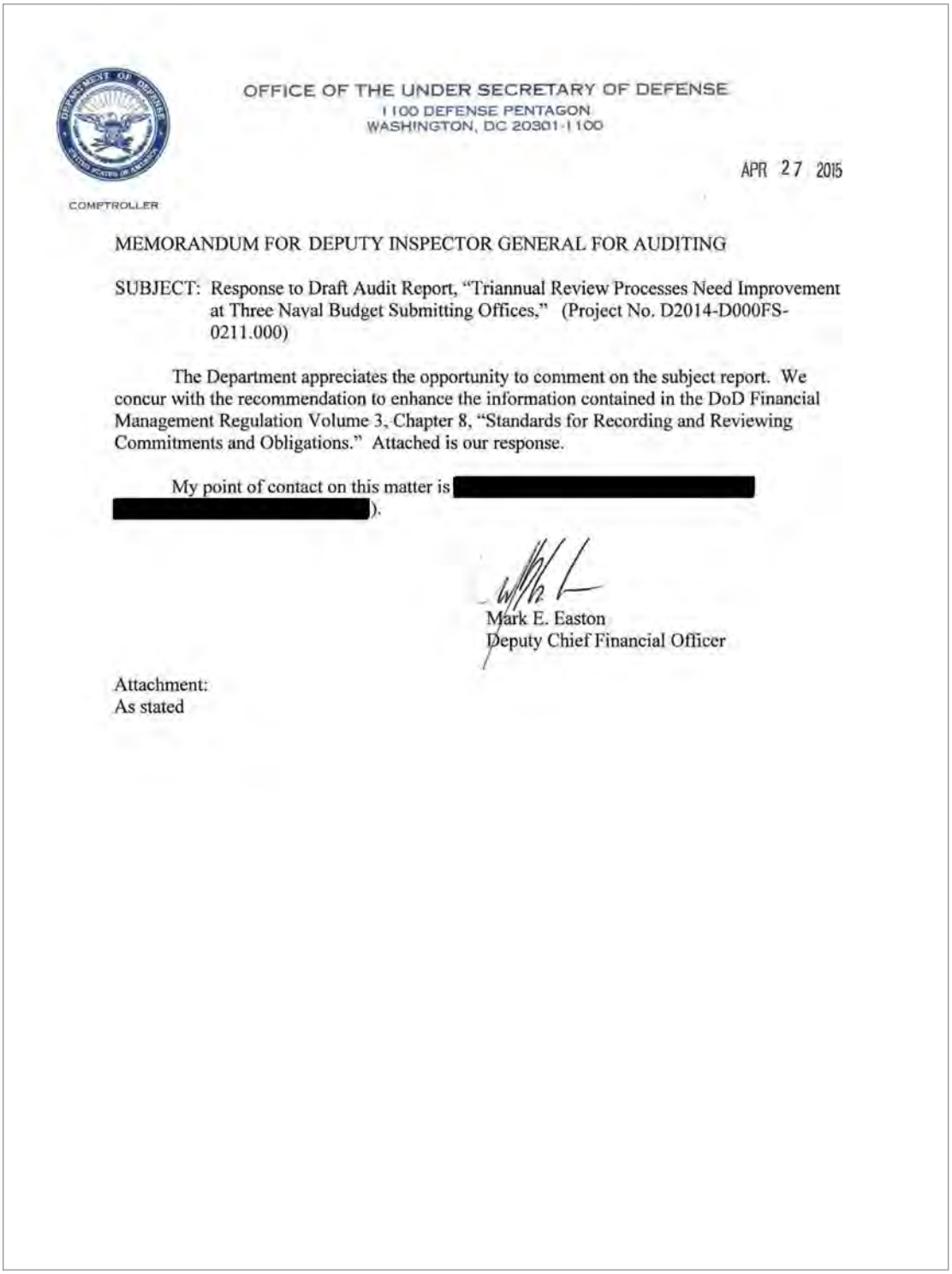
Report No. DODIG-2012-062, "Contractor-Invoiced Costs Were Accurate, but DoD Did Not Adequately Track Funding," March 8, 2012

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

Management Comments

Under Secretary of Defense (Comptroller)/Deputy Chief Financial Officer



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

COMPTROLLER

APR 27 2015

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDITING

SUBJECT: Response to Draft Audit Report, "Triannual Review Processes Need Improvement at Three Naval Budget Submitting Offices," (Project No. D2014-D000FS-0211.000)

The Department appreciates the opportunity to comment on the subject report. We concur with the recommendation to enhance the information contained in the DoD Financial Management Regulation Volume 3, Chapter 8, "Standards for Recording and Reviewing Commitments and Obligations." Attached is our response.

My point of contact on this matter is [redacted]).

Mark E. Easton
Deputy Chief Financial Officer

Attachment:
As stated

Under Secretary of Defense (Comptroller)/Deputy Chief Financial Officer (cont'd)

DOD OIG DRAFT REPORT DATED MARCH 30, 2015
PROJECT NO. D2014-D000FS-0211.000

TRIANNUAL REVIEW PROCESSES NEED IMPROVEMENT AT THREE NAVAL BUDGET SUBMITTING OFFICES

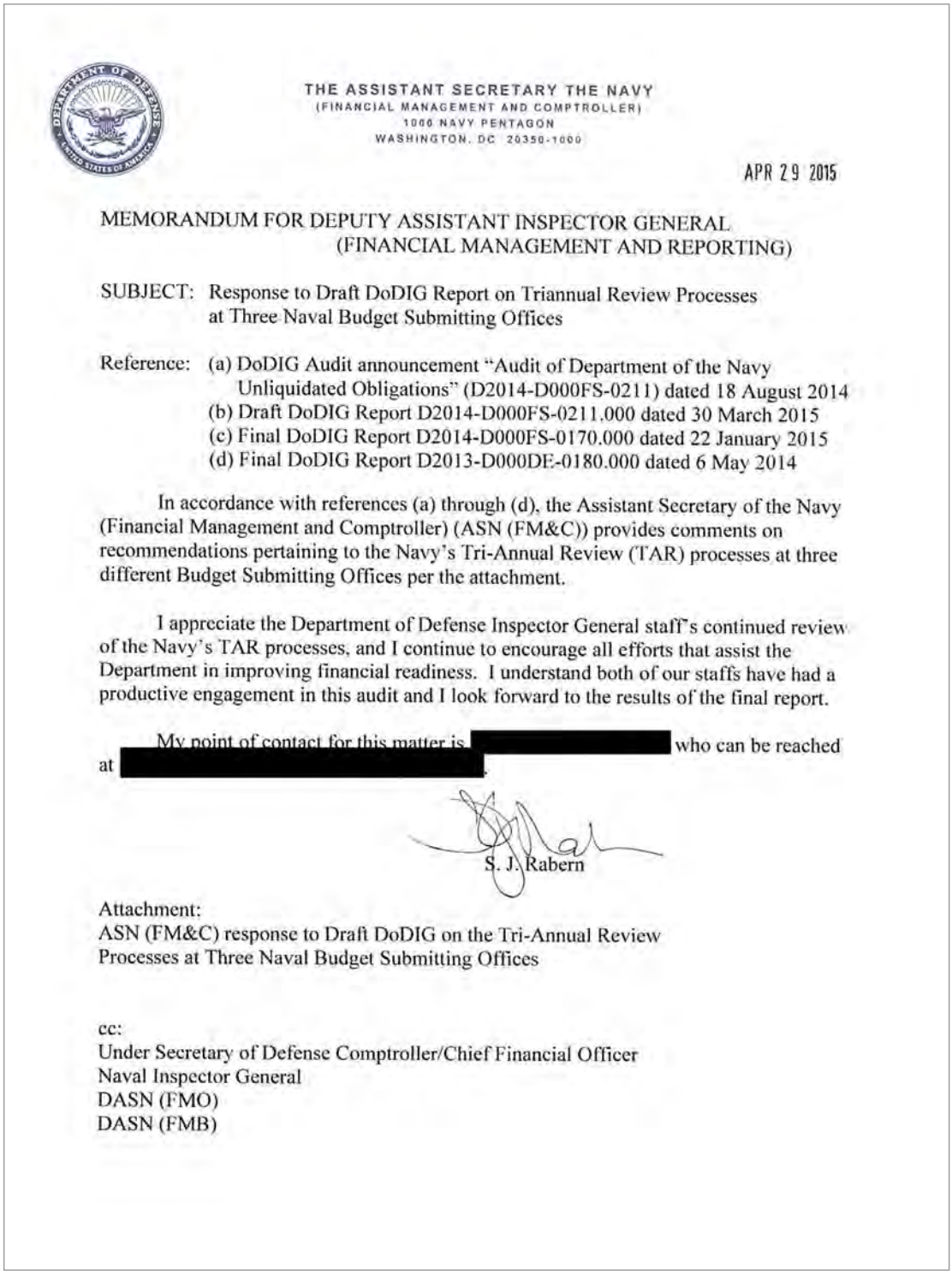
OFFICE OF THE UNDER SECRETARY OF DEFENSE (COMPTROLLER) COMMENTS TO THE DOD OIG RECOMMENDATION

RECOMMENDATION 1: The Office of the Under Secretary of Defense (Comptroller) update the Department of Defense Financial Management Regulation Volume 3, Chapter 8, "Standards for Recording and Reviewing Commitments and Obligations" to specify what constitutes sufficient supporting documentation for the performance of the triannual review.

DoD RESPONSE: Concur. Volume 3, Chapter 8 of the DoD Financial Management Regulation is currently under revision with publication slated for fiscal year end. The revision will define supporting documentation for validity and accuracy of the obligation.

Attachment 1

Assistant Secretary of the Navy (Financial Management and Comptroller)



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

APR 29 2015

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

SUBJECT: Response to Draft DoDIG Report on Triannual Review Processes at Three Naval Budget Submitting Offices

Reference: (a) DoDIG Audit announcement "Audit of Department of the Navy Unliquidated Obligations" (D2014-D000FS-0211) dated 18 August 2014
(b) Draft DoDIG Report D2014-D000FS-0211.000 dated 30 March 2015
(c) Final DoDIG Report D2014-D000FS-0170.000 dated 22 January 2015
(d) Final DoDIG Report D2013-D000DE-0180.000 dated 6 May 2014

In accordance with references (a) through (d), the Assistant Secretary of the Navy (Financial Management and Comptroller) (ASN (FM&C)) provides comments on recommendations pertaining to the Navy's Tri-Annual Review (TAR) processes at three different Budget Submitting Offices per the attachment.

I appreciate the Department of Defense Inspector General staff's continued review of the Navy's TAR processes, and I continue to encourage all efforts that assist the Department in improving financial readiness. I understand both of our staffs have had a productive engagement in this audit and I look forward to the results of the final report.

My point of contact for this matter is [redacted] who can be reached at [redacted].

S. J. Rabern

Attachment:
ASN (FM&C) response to Draft DoDIG on the Tri-Annual Review Processes at Three Naval Budget Submitting Offices

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

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

ASN(FM&C) response to Draft DoDIG on the Tri-Annual Review Processes at Three Naval Budget Submitting Offices
(Report No. D2014-D000FS-0211.000)

The following comments are submitted in response to DODIG Report No. D2014-D000FS-0211.000 which reviewed the Tri-Annual Review (TAR) processes at three Budget Submitting Offices (BSO) within the Department of the Navy (DoN). This is third DoDIG review of the DoN's Triannual Review (TAR) processes: the initial audit reviewed unliquidated obligations of Norfolk Ship Support Activity (NSSA); a second audit was performed on the DoN's Headquarters TAR processes; and this audit has focused on three selected DoN BSO organizations: NAVAIR, NAVFAC and U.S. Marine Corps. (References (b), (c) and (d) refer)

The Department has made good progress on corrective actions since the last audit on Headquarters Triannual Review processes. Changes to automation recommended in the previous audit coupled with Triannual Review (TAR) reporting, training and guidance improvements will enable the Department to attain a common reporting standard and will allow my staff to be able to review and analyze supporting BSO information. Because these actions are all consistent within the daily Triannual Review work within execution, we are hopeful that any changes to reporting would preserve the current level of Triannual Review work at our BSO staffs. My staff has reviewed 13 of 19 BSO and considers these commands able to meet a consistent Triannual Review information reporting standard. We are actively meeting with the remaining commands to review local automation and reporting capability. Because these last six commands are using our legacy accounting systems (STARS), and we have not yet assessed the local TAR support applications, we will have to consider cost, benefit and manpower as we determine the effort each will require to achieve a common TAR reporting standard.

Separately, I wanted to alert you that, DFAS is about to deploy the system change request (SCR) that we coordinated for STARS in July of 2014 that addresses recommendations from the DoDIG Report, "Improvements Needed for Navy's Triannual Review" (Report DODIG-2014-070) of 22 January 2015 (reference (c)):

> *Recommend ASN (FM&C): "Develop standard queries for the budget submitting offices to ensure completeness of the data extracted for tri-annual reviews"*

DFAS provides that this modification to STARS Triannual execution reports should be deployed by July 2015. Common accounting reports from DFAS coupled with our efforts above to standardize Triannual Review outputs across the Department will enable comprehensive reviews and analysis and result in better overall fidelity of DoN Triannual Review.

Again, we appreciate DODIG's efforts in reviewing the Department of the Navy's Triannual Review process and making recommendations on issues that were discovered. We consider that success in this area will be a stepping stone to auditability and improving financial readiness. The following comments are provided in response to the Draft Report: Tri-Annual Review Processes Need Improvement at Three Naval Budget Submitting Offices (Project No. D2014-D000FS-0211.000).

Page 1 of 3 Attachment (1)

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

Recommendation 1: USD(C)

We recommend the Director, Office of the Under Secretary of Defense (Comptroller) update DoD Financial Management Regulation Volume 3, Chapter 8 "Standards for Recording and Reviewing Commitments and Obligations" to specify what constitutes sufficient supporting documentation for the performance of the triannual review.

OASN (FM&C) Staff has coordinated with the DCMO on the potential efforts within the Triannual Review as well with OSD Staff on potential changes to the FMR. Once the Draft changes to the FMR are available, OASN (FM&C) Staff expects to coordinate on the change and make recommendations consistent with the DoDIG audit findings.

Recommendation 2: ASN(FM&C)

2.a) Create and implement procedures based on updates to DoD Financial Management Regulation Volume 3, Chapter 8 "Standards for Recording and Reviewing Commitments and Obligations."

OASN (FM&C) Staff is incorporating improvements identified during the three DoDIG audits of the DoN Triannual Review (TAR) as well as coordinating with OSD(C) Staff to incorporate changes from the DoD Financial Management Regulation (FMR) into standing DoN TAR guidance. The DoN expects to perform the initial guidance update following completion of the ongoing TAR systems reviews by the end of July 2015. Once the FMR change to Volume 3, Chapter 8 is published another update would be coordinated shortly after.

2.b) Train Naval Air Systems Command, U.S. Marine Corps, and Naval Facilities Engineering Command and their funds holders on their triannual review responsibilities.

OASN (FM&C) Staff expects to conduct TAR training for all Budget Submitting Offices (BSO) beyond the three that were the focus of this audit using the Defense Connect Online application. The DoN plans to conduct at least two training sessions with the Triannual Review SME's before the end of fiscal year 2015. This training along with the periodically-convened Triannual Review Working Group, and the monthly communications via the Triannual Review Drumbeat will improve Department situational awareness of the Triannual Review and it linkage to daily execution and the DoN Schedule of Budget Activity (SBA) audit in progress. The Triannual Review Working Group will be used exclusively to coordinate OASN (FM&C) Staff recommendations on further improvement of TAR processes and guidance.

2.c) Perform reviews of all budget submitting offices to determine the effectiveness of implementation of the triannual review.

The DoN has completed significant reviews of BSO processes and applications for this recommendation. In concert with this audit, DoDIG Audit Report DODIG-2015-072 recommended the DoN "… implement standard procedures to 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." Since that report in January 2015, OASN (FM&C) Staff has investigated several potential technical solutions that would meet the DoDIG's intent. OASN (FM&C) Staff's current focus is to review existing BSO TAR reporting methods and assess the effort necessary to bring the six remaining BSOs up to a common information and reporting standard. With the appropriate automation and consistent TAR reporting across the DoN BSOs, OASN (FM&C) Staff will be able to

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

review and analyze the detailed BSO TAR information that lies behind the summary level reporting for each reporting period. To date, OASN (FM&C) Staff has reviewed 13 of 19 BSO applications and reporting capabilities and expects to assess remaining TAR actions after the systems reviews are complete on 1 June 2015.

2.d) Identify corrective actions and provide training for other budget submitting offices found to be noncompliant.

As indicated in paragraph 2.b above, the OASN (FM&C) Staff would use a multi-faceted approach to engage all BSOs to improve Triannual Review awareness. Along with formal training conducted via the DCO application, training would also be accomplished via Triannual Review Working Group as well the monthly communications via the Triannual Review Drumbeat. This will be particularly important to reinforce the linkage between the TAR, daily execution and the DoN SBA audit.

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

Per paragraph 2.c above, the DoN intends to establish a common reporting standard for the status of obligation reviews. It was apparent in this audit that the collection of screen shots, text files and other displays served to prevent a streamlined evaluation of the Triannual Review at the three DoN commands. OASN (FM&C) Staff is working with the BSOs as described in 2.c above to establish a common information standard. This detail below the current level of summary TAR reporting will enable OASN (FM&C) Staff to review the underlying BSO information that is rolled up in the periodic TAR reporting. This common information and reporting standard will dramatically improve analysis capability as well as enable timely feedback to BSO staffs where needed.

Page 3 of 3 Attachment (1)

Acronyms and Abbreviations

BSO	Budget Submitting Office
FMR	Financial Management Regulation
DoN	Department of the Navy
ERP	Enterprise Resource Planning
NAVAIR	Naval Air Systems Command
NAVFAC	Naval Facilities Engineering Command
TAR	Triannual Review
USMC	U.S. Marine Corps


INSPECTOR GENERAL
INTEGRITY
EFFICIENCY
DEPARTMENT OF DEFENSE

Whistleblower Protection
U.S. Department of Defense

The Whistleblower Protection Enhancement Act of 2012 requires the Inspector General to designate a Whistleblower Protection Ombudsman to educate agency employees about prohibitions on retaliation, and rights and remedies against retaliation for protected disclosures. The designated ombudsman is the DoD Hotline Director. For more information on your rights and remedies against retaliation, visit www.dodig.mil/programs/whistleblower.

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

Congressional Liaison
congressional@dodig.mil; 703.604.8324

Media Contact
public.affairs@dodig.mil; 703.604.8324

Monthly Update
dodigconnect-request@listserve.com

Reports Mailing List
dodig_report@listserve.com

Twitter
twitter.com/DoD_IG

DoD Hotline
dodig.mil/hotline

DEPARTMENT OF DEFENSE | INSPECTOR GENERAL

4800 Mark Center Drive
Alexandria, VA 22350-1500
www.dodig.mil
Defense Hotline 1.800.424.9098