[redacted]

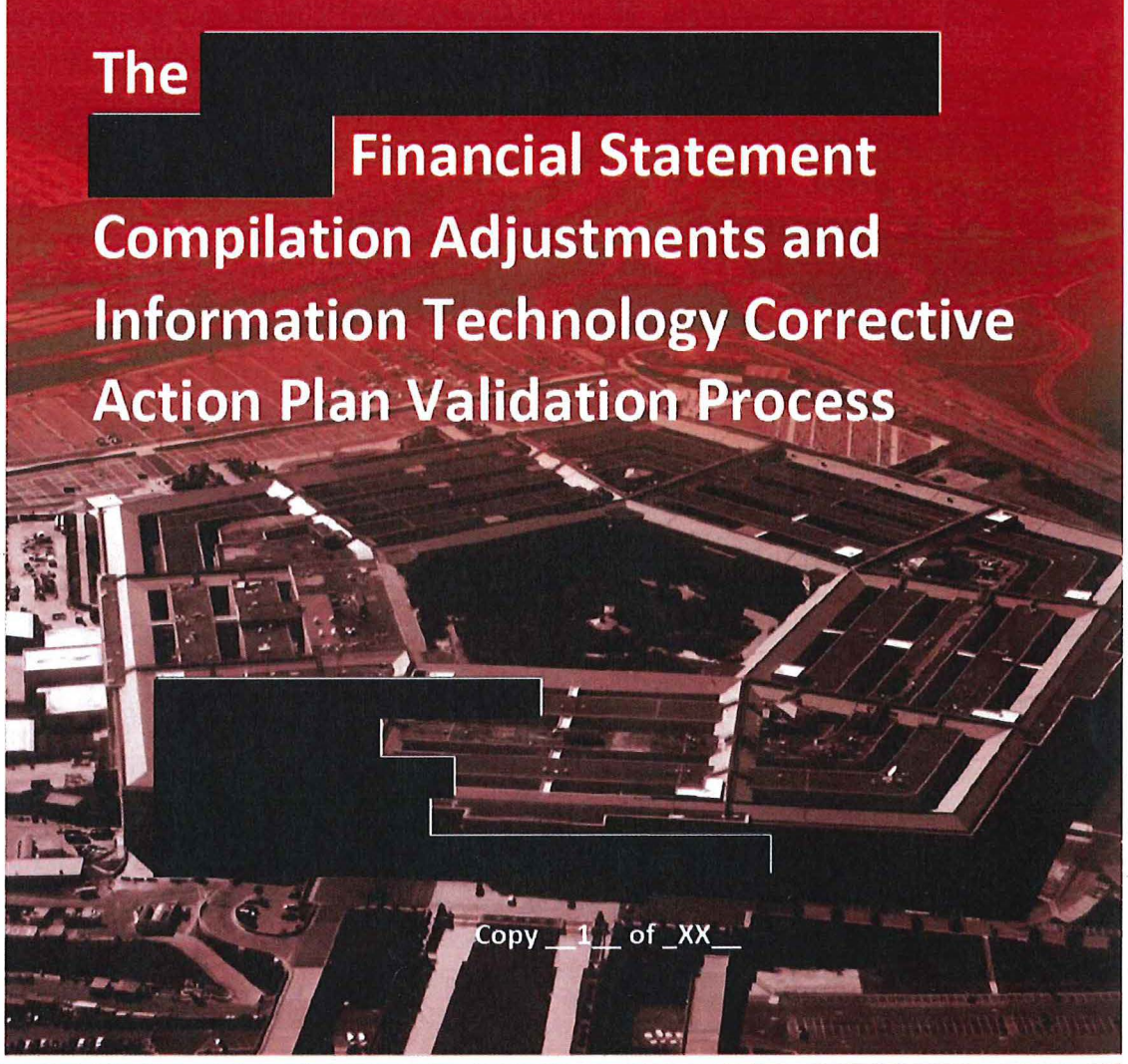
INSPECTOR GENERAL

Department of Defense

December 21, 2017

Report No. DODIG-2018-057

The [redacted] Financial Statement Compilation Adjustments and Information Technology Corrective Action Plan Validation Process



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[redacted]

INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

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[redacted]

Results in Brief

[redacted] *Financial Statement Compilation Adjustments and Information Technology Corrective Action Plan Validation Process*

December 21, 2017

(U) Objective

(U) Our audit objective was to determine whether adjustments made to the [redacted] data during the FY 2017 financial statement compilation process were adequately documented and supported in accordance with the DoD Financial Management Regulation (FMR). We also reviewed the [redacted] process for validating its information technology (IT) corrective action plans (CAPs).

(U) Background

(U) Prior audits identified deficiencies related to the Navy's journal voucher (JV) process and IT CAP validation process. The purpose of this audit was to determine whether these deficiencies also existed at the [redacted].

(U) Findings

([redacted]) Adjustments made to the [redacted] data during the FY 2017 financial statement compilation process were not adequately documented and supported in accordance with the DoD FMR. This occurred because the [redacted] JV standard operating procedures did not include specific instructions tied to the DoD FMR. Until the [redacted] consistently follows the DoD FMR to maintain fully documented JVs, the Navy's financial statements will remain unsupported and will be potentially misstated.

(U//[redacted]) Two of the six IT CAPs that the [redacted] Information Technology Audit Readiness (ITAR) Team verified as complete were incorrectly closed. This occurred because the ITAR Team did not have an IT CAP Validation policy that included all Office of Management and Budget (OMB) Circular A-123 requirements to correct control deficiencies. Until the [redacted] consistently follows OMB Circular A-123 guidance to correct control deficiencies, the Navy's control environment will remain at risk for unauthorized access.

(U) Recommendations

(U) We recommend that the [redacted] Comptroller:

- (U//[redacted]) Develop policies and implement procedures to ensure JVs contain valid GL accounts, include adequate documentation, reflect correct dollar amounts, contain accurate financial information, and contain required approvals.
- (U//[redacted]) Implement quality control review procedures in accordance with the DoD FMR.
- (U//[redacted]) Develop, document, and implement a policy to validate that corrective actions have been effectively designed and implemented in accordance with OMB Circular A-123 criteria.
- (U//[redacted]) Test all controls to ensure deficiencies are corrected prior to closing IT CAPs. Specifically, determine whether the controls are implemented correctly, operating as intended, and producing the desired outcome.
- (U//[redacted]) Maintain an updated and accurate status for identified control deficiencies throughout the entire process.

(U) Management Comments and Our Response

(U) The [redacted] Comptroller addressed all specifics of the recommendations related to JV and IT CAP Validation policies and procedures. Therefore, the recommendations are resolved. We will close the recommendations once we verify the new policies and procedures have been implemented.

[redacted]

[redacted]

(U) Recommendations Table

(U//[redacted]) Management	Recommendations Unresolved	Recommendations Resolved	Recommendations Closed
[redacted] Comptroller	None	A.1.a, A.1.b, B.1.a, B.1.b, B.1.c	None (U//[redacted])

(U) The following categories are used to describe agency management's comments to individual recommendations.

- (U) Unresolved – Management has not agreed to implement the recommendation or has not proposed actions that will address the recommendation.
- (U) Resolved – Management agreed to implement the recommendation or has proposed actions that will address the underlying finding that generated the recommendation.
- (U) Closed – OIG verified that the agreed upon corrective actions were implemented.

[redacted]

[redacted]

[redacted]

[redacted]

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

December 21, 2017

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

(U) SUBJECT: [redacted] Financial Statement Compilation Adjustments and Information Technology Corrective Action Plan Validation (Report No. DODIG-2018-057)

(U//[redacted]) We are providing this report for review. Until the [redacted] consistently follows the DoD Financial Management Regulation to maintain fully documented journal vouchers, the Navy's financial statements will remain unsupported and potentially misstated. Further, if Office of Management and Budget Circular A-123 guidance to correct control deficiencies is not consistently followed, the [redacted] control environment will remain at risk for unauthorized access. We conducted this audit in accordance with generally accepted auditing standards.

(U) We considered management comments on the draft of this report when preparing the final report. DoD Instruction 7650.03 requires that recommendations be resolved promptly. Comments from the [redacted] Comptroller addressed all specifics of the recommendations and conformed to the requirements of DoD Instruction 7650.03. Therefore, we do not require additional comments.

(U) We appreciate the courtesies extended to the staff. Please direct questions to Ms. Laura Croniger at (216) 535-3749/Laura.Croniger@dodig.mil.

Lorin T. Venable

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

[redacted]

(U) Contents

(U) Introduction

(U) Objective

(U) Our audit objective was to determine whether adjustments made to the [redacted] data during the FY 2017 financial statement compilation process were adequately documented and supported in accordance with the DoD Financial Management Regulation (FMR). We also reviewed the [redacted] process for validating its information technology (IT) corrective actions plans (CAPs).

(U) Background

(U) Since FY 2015, the Navy has undergone audits of its Schedule of Budgetary Activity to demonstrate the auditability of the Navy financial statements. These previous audits identified deficiencies related to the Navy's journal voucher (JV) process and IT CAP validation process. The JV process is used when the Navy needs to make adjustments or corrections to transactions previously entered in Navy or DoD financial management systems. The IT CAP validation process is used by the Navy to validate that findings and recommendations related to IT systems and controls from the previous audits have been corrected and implemented.

(U) The purpose of this audit was to determine whether the previously identified deficiencies also existed at the [redacted]. The [redacted] mission is to provide secure acquisition support [redacted] to deliver technological advantage to the warfighter.

(U) Review of Internal Controls

(U//[redacted]) DoD Instruction 5010.40 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.[1] We identified those adjustments the [redacted] made to its data during the FY 2017 financial statement compilation process were not adequately documented and supported in accordance with the DoD FMR and that IT CAPs that the [redacted] Information Technology Audit Readiness (ITAR) Team verified as complete were incorrectly closed.

(U) We will provide a copy of the report to Navy senior officials responsible for internal controls at the [redacted]

[1] [redacted]

(U) Finding A

(U) The [redacted] Should Update and Fully Implement Its JV SOPs

(U[redacted]) Adjustments made to the [redacted] financial data during the FY 2017 financial statement compilation process were not adequately documented and supported in accordance with the DoD FMR. Specifically, 10 of 10 JVs tested did not contain valid general ledger accounts, adequate supporting documentation, balanced adjustments, correct appropriation and accounting data, or proper approvals. These 10 JVs totaled [redacted] third quarter FY 2017 JV's the [redacted] processed. This occurred because the [redacted] JV standard operating procedures (SOPs) did not include specific instructions tied to the DoD FMR. Until the [redacted] consistently follows the DoD FMR to maintain fully documented JVs, the Navy's financial statements will remain unsupported and potentially misstated.

(U) The Navy's JV Process

(U) In FYs 2015 and 2016, an Independent Public Accountant issued two Notifications of Findings and Recommendations related to the Navy's JV process:

- (U) Command Budget Submitting Offices did not comply with the Navy JV Policy.[2]
- (U) JVs lacked sufficient detailed documentation to support the amounts recorded.[3]

(U) JVs are recorded at the end of an accounting period to alter the ending balances in various general ledger accounts. We reviewed the [redacted] FY 2017 data to determine if it complied with the DoD FMR and Navy JV Policy.

[2] (U) Navy JV Policy refers to the "Department of the Navy Policy for Recording Business Entries Including Journal Vouchers," September 23, 2013.

[3] (U) Because of the [redacted] environment, Independent Public Accountants were not granted access to the [redacted] programs.

[redacted]

(U) DoD FMR JV Guidance

(U) The DoD FMR dated August 2011, identifies elements of documentation that have a direct effect on the amounts presented on the financial statements. Specifically, JV documentation must:

- (U) identify and support specific expenditure or receipt accounts used (U.S. Standard General Ledger [USSGL]);
- (U) include adequate information to support the validity and amount of the transactions (Documentation);
- (U) include support for the calculation of the dollar amount of the adjustment (Balanced Adjustments);
- (U) identify and support specific accounts used (Correct Appropriation and Accounting Data); and
- (U) include evidence of review and approval (Approvals).[4]

(U) Support for Adjustments

(U//[redacted]) Adjustments made to the [redacted] data during the FY 2017 financial statement compilation process were not adequately documented and supported in accordance with the DoD FMR. According to the DoD FMR, this documentation must include the rationale and justification for the adjustment, dollar amount of errors or conditions related to the transactions or records that are proposed for adjustment, date of the adjustment, and name and position of the individual approving the adjustment. The DoD FMR also requires that DoD Components maintain an audit trail. Audit trails consist of documentation that is readily available and necessary to demonstrate the accuracy, completeness, and timeliness of a transaction. We determined 10 of 10 JVs tested did not contain valid general ledger accounts, adequate supporting documentation, balanced adjustments, correct appropriation and accounting data, or proper approvals.[5]

(U//[redacted]) USSGL. The DoD FMR requires that JV documentation identify and support specific expenditure or receipt accounts used. JVs must contain valid general ledger accounts to record the adjustments. When improper accounts are used, those accounts are inaccurately adjusted resulting in misstated financial statements. The [redacted]

4 documentation required to support all JVs. The June 2017 update of this Chapter reiterates the importance of supporting documentation and further describes the required support, referred to as the five critical elements.

5 (U) The [redacted] provided a separate file that included DD577s however, these were not provided as part of the JV package to provide an audit trail as required by the DoD FMR.

documentation did not include justification for accounts used or include supporting documentation showing valid accounts were used in the accounting system. We concluded that the [redacted] did not support the general ledger accounts used to record all 10 adjustments.

(U//[redacted]) Documentation. The DoD FMR specifies that JVs must include adequate information supporting the validity and amount of the transactions. According to the DoD FMR, supporting documentation must be attached to the JV. Adequate supporting documentation allows a reviewer or auditor to clearly understand the purpose of the entry and confirm its accuracy, completeness, and timeliness. The documentation the [redacted] provided did not include the applicable criteria or a reason for making the entry and did not include support for the adjustment amount. We determined that the [redacted] did not support that any of the 10 JVs were valid or whether the amounts were accurate.

(U//[redacted]) Balanced Adjustments. The DoD FMR requires that JV documentation include support for the calculation of the dollar amount of the adjustment. JV debits and credits must equal and reflect correct, balanced, dollar amounts. If imbalanced adjustments are made, accounts will be over or under reported, resulting in financial misstatements. The [redacted] provided the preparer's Excel JV entry form; however, the documentation did not include supporting information for the balanced entries in the system.[6] We concluded that the [redacted] did not support whether any of the 10 JVs were balanced.

(U//[redacted]) Correct Appropriation and Accounting Data. The DoD FMR requires that JV documentation identify and support specific accounts used. JVs must contain accurate financial information for entry into the accounting system(s). Without evidence of entry into the accounting system(s), management cannot determine whether correct adjustments were posted. The [redacted] provided the preparer's Excel JV entry form; however, the documentation did not include supporting documentation for posting in the accounting system. We determined that the [redacted] did not support that any of the 10 JVs accurately adjusted accounting information.

(U//[redacted]) Approvals. The DoD FMR states JV documentation must include evidence of review and approval. JVs must contain required approvals in accordance with established thresholds. Approvals are necessary to maintain proper segregation of duties, ensuring oversight to catch errors, and prevent fraud or theft. The [redacted] provided the preparer's Excel JV entry form signed by the approver; however, the documentation did not include approver designations and did not document the approval in the accounting system. [redacted] decision makers cannot be certain that JVs

(U) [6] JV entry forms are Excel worksheets used by the [redacted] JV preparers to document the debits and credits made for each adjustment.

[redacted]

were correctly approved and financial reporting was accurate. We concluded that the [redacted] did not support that any of the 10 JVs were appropriately approved in the system.

(U[redacted]) These 10 JVs totaled [redacted] (67 percent) third quarter FY 2017 JV population. The [redacted] is not following the DoD FMR and the Navy's financial statements will remain unsupported until the [redacted] leadership makes accurate JV reporting and approvals a priority and implements change to correct the identified deficiencies.

(U) JV Guidance

(U) The [redacted] JV guidance did not include specific instructions tied to the DoD FMR. Specifically, the [redacted] JV SOPs did not include procedures to ensure JVs were documented, supported, reviewed, and maintained, in accordance with the DoD FMR. Without effective JV policies that require proper supporting documentation, the [redacted] is not following the DoD FMR and the Navy's financial statements will remain unsupported.

(U) Navy JV Policy

(U) JVs pose a higher level of risk to the accurate presentation of the Navy's financial statements because JVs are not a normal part of operations and are often manually recorded. As a result, JVs require the establishment of additional internal controls. The Navy JV Policy requires that Navy components maintain sufficient and appropriate supporting documentation for all entries into the financial systems. For example, documentation used to calculate and record reported amounts such as invoices, purchase orders, or receiving reports must be included.

(U) The [redacted] JV SOPs

(U[redacted]) [redacted] officials provided four JV SOPs that listed a reference to the DoD FMR chapter. However, the SOPs did not provide details from the DoD FMR to assist [redacted] officials when documenting, supporting, reviewing, and maintaining JVs. Specifically, while the following requirements are included in the DoD FMR, the [redacted] JV SOPs did not include:

- (U[redacted]) instructions for posting or reviewing the USSGL in the system (USSGL);
- (U[redacted]) lists of appropriate support documentation required or instructions for maintaining readily available complete JV packages (Documentation);

[redacted]

- (U[redacted]) instructions for posting or reviewing adjustments in the system (Balanced Adjustments);
- (U[redacted]) instructions for posting or reviewing appropriation data in the system (Correct Appropriation and Accounting Data); or
- (U[redacted]) instructions for appropriate post-validation approval in the system (Approvals).

(U[redacted]) None of the SOPs were adequate to ensure JVs were documented, supported, and reviewed in accordance with the DoD FMR. Because the [redacted] SOPs were not adequate, the [redacted] failed to support the required elements of documentation for all 10 JVs tested. *The [redacted] Comptroller should develop policies and implement procedures to ensure JVs contain valid GL accounts, include adequate documentation, reflect correct dollar amounts, contain accurate financial information, and receive required approvals.*

(U) Quality and Compliance Review

(U) The Navy JV Policy also requires that quality and compliance reviews be conducted within 30 days after the end of each quarter, by the Accounting Director/Officer (or their appointed designee) at each command. According to the Policy these quality reviews will be made using a random sample to determine whether the JVs were correctly prepared and processed, adequately described and supported, and approved by appropriate personnel. Evidence of the completed review must be retained by the Command.

(U[redacted]) The [redacted] performed its third quarter FY 2017 quality and compliance review, which included 7 JVs that were also included in the 10 JVs we tested for compliance with the DoD FMR.[7] The [redacted] reported that six of the seven JVs were correctly prepared and processed. However, we determined that none of the seven JVs were prepared in accordance with the required elements of documentation identified in the DoD FMR. Specifically, none of seven JVs were not adequately supported and approved by appropriate personnel. As a result, we determined that the [redacted] quality review process is not effective and cannot be relied on as an internal control.[8] *The [redacted] Comptroller should implement quality control review procedures in accordance with the DoD FMR.*

[7] (U) These seven JVs were part of the 10 JVs tested for compliance with the DoD FMR required elements of documentation.
[8] (U) See Appendix for further details

(U) Conclusion

(U) ([redacted]) The [redacted] did not prepare its third quarter JVs, valued at [redacted] in accordance with the required elements of documentation listed in the DoD FMR. These elements have a direct effect on the amounts presented on the financial statements. Without effective JV policies and adequate JV procedures that contain these elements the [redacted] was unable to support that:

- (U) valid GL accounts were used to record the adjustment,
- (U) JVs were valid or amounts were accurate,
- (U) JVs were balanced,
- (U) JVs accurately adjusted accounting information, or
- (U) JVs were appropriately approved in the system.

(U[redacted]) As a result, the [redacted] reported at least [redacted] of unsupported JVs on its FY 2017 third quarter financial statements. Until the [redacted] consistently follows the DoD FMR to maintain fully documented JVs, the Navy's financial statements will remain unsupported and potentially misstated.

(U) Management Comments on the Finding and Our Response

(U) [redacted] Comptroller Comments on the Elements of Documentation in Finding Paragraph

(U) The [redacted] Comptroller non-concurred with specific results presented in the finding; specifically, the number of JVs we determined did not meet the five elements of documentation. However, he acknowledged that improvements were needed and provided several attachments of the updates. Specifically, the [redacted] Comptroller provided updated JV Form and JV Log templates and updates to the JV Quality and Compliance Testing SOP. In addition, the [redacted] Comptroller reassessed the JV population and found required documentation for six of the 10 JVs. However, he did not provide this evidence as an enclosure to his response to the draft report.

(U) Our Response

(U) While the [redacted] Comptroller has taken action to update JV Form and JV Log templates and the JV Quality and Compliance Testing SOP, we did not consider the updated policies because they were not implemented or available during our review of [redacted]

[redacted] 3rd Quarter FY 2017 JVs. We did not consider the [redacted] Comptroller's reassessment of the JV population because he did not provide the new evidence with his response to the draft report and the documentation provided is dated for 1st quarter FY 2018. We will test the effectiveness of these corrective actions as part of the FY 2018 audit.

(U) Recommendations, Management Comments, and Our Response

(U) Recommendation A.1

(U) We recommend that [redacted] Comptroller:

a. (U//[redacted]) Develop policies and implement procedures to ensure JVs contain valid GL accounts, include adequate documentation, reflect correct dollar amounts, contain accurate financial information, and contain required approvals.

(U) [redacted] Comptroller Comments

(U) The [redacted] Comptroller agreed with the recommendation, stating he is in the process of implementing Policy Memorandum 5-17, "Department of the Navy Policy for Recording Business Entries Including Journal Vouchers Update," dated October 19, 2017. In addition, he is consolidating the existing four JV SOPs which will reference the updated Navy JV Policy and the DoD FMR. He is expected to complete the update by January 2018.

(U) Our Response

(U) Comments from the [redacted] Comptroller addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify the new policies include adequate guidance to ensure JVs contain valid GL accounts, include adequate documentation, reflect correct dollar amounts, contain accurate financial information, and contain required approvals.

b. (U//[redacted]) Implement quality control review procedures in accordance with the DoD Financial Management Regulation.

(U) [redacted] Comptroller Comments

(U) The [redacted] Comptroller agreed with the recommendation, stating he updated the [redacted] JV Quality and Compliance Testing SOP.

(U) Our Response

(U) Comments from the [redacted] Comptroller addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify the new policy includes quality control review procedures in accordance with the DoD Financial Management Regulation.

(U) Finding B

(U) The [redacted] Should Update Its Process to Validate IT CAPs

(U//[redacted]) Two of the six IT CAPs that the [redacted] ITAR Team verified as complete were incorrectly closed.[9] Specifically, the ITAR Team did not:

- (U//[redacted]) adequately test the corrected controls, or
- (U//[redacted]) maintain an accurate status for all control deficiencies identified.

(U//[redacted]) This occurred because the ITAR Team did not have an IT CAP Validation policy that included all OMB Circular A-123 requirements to correct control deficiencies. Until the [redacted] consistently follows OMB Circular A-123 guidance to correct control deficiencies, the Navy's control environment will remain at risk for unauthorized access.

(U) The Navy's IT CAP Review Process

(U//[redacted]) In FY 2016, Independent Public Accountants issued Notifications of Findings and Recommendations related to the Navy's IT CAP review process. The Independent Public Accountants reported that the Navy did not have an effective process to validate that IT weaknesses identified during previous audits were fully corrected. We reviewed the [redacted] IT CAPs and determined that the ITAR Team did not adequately test corrected controls or maintain an accurate status for control deficiencies identified. The Navy leadership relies on accurate assessments of its IT systems to implement appropriate general and application controls.

(U) OMB Circular A-123 IT CAP Validation Guidance

(U) The Office of Management and Budget (OMB) Circular A-123, Section V.B., "Corrective Actions Plan," requires that management maintain detailed IT CAPs internally for audit review. Management's corrective action process must include testing to validate correction of the control deficiency. Management must also maintain

[9] (U) Throughout Finding B, "ITAR Team" refers to the [redacted] ITAR Team.

accurate records of the status of identified control deficiencies related to access to IT systems. Control deficiencies are corrected when sufficient corrective actions have been taken and validated. This determination must be in writing and supported by appropriate documentation.

(U) The [redacted] IT CAP Validation Process

(U//[redacted]) The ITAR Team did not adequately test corrected controls or maintain an accurate status for all control deficiencies identified as part of the [redacted] IT CAP validation process. Specifically, the ITAR Team incorrectly closed two of the six IT CAPs it verified as complete.

(U//[redacted]) In the IT CAP #11 Validation Package, the ITAR Team recommended the [redacted] identify and reconcile all pending system change requests that were not implemented and conduct a Security Impact Analysis of the proposed change.[10] Because information systems are typically in a constant state of change, it is important to perform Security Impact Analyses to understand the impact of changes on the functionality of existing security controls. The ITAR Team closed IT CAP #11 as fully corrected. However, according to the IT CAP Validation Package #11, the ITAR Team's recommended actions remained in process for three change requests. The ITAR Team should not have closed IT CAP #11 until it validated that the remaining system change requests had been implemented and the Security Impact Analyses were completed.

(U//[redacted]) In the IT CAP #14 Validation Package, the ITAR Team recommended the [redacted] develop a service level agreement (SLA) for all systems hosted on its network. SLAs are one way to establish roles and responsibilities with external providers and identify associated risks, to include unauthorized access to systems and data.[11] The use of SLAs provides assurance that risk of unauthorized access from these external providers is at an acceptable level. The IT CAP Validation Package #14 documented only one SLA. The ITAR Team closed IT CAP #14 as fully corrected without identifying all the systems hosted on the [redacted] network, and with two systems missing SLAs. However, the ITAR team should not have closed IT CAP #14 without validating and documenting that the list of systems hosted on the [redacted] network was complete and that all hosted systems had SLAs.

(U//[redacted]) The control deficiencies were not corrected and the ITAR Team should not have closed IT CAP #11 or IT CAP #14. By incorrectly closing these, the ITAR Team

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10 Guide for Security-Focused Configuration Management of Information Systems, Analysis is the analysis conducted by qualified staff within an organization to determine the extent to which changes to the information system affect the security posture of the system.

11 (U) The National Institute of Standards and Technology Guide for Applying the Risk Management Framework to Federal Information Systems: A Security Life Cycle Approach, states agencies are responsible for risks incurred when using external providers or services.

[redacted]

presented an inaccurate assessment of the [redacted] control environment to Navy management.

(U) IT CAP Validation Policy

(U) The ITAR Team did not have an IT CAP Validation Policy that included all OMB Circular A-123 requirements to correct control deficiencies. Instead, the [redacted] guidance provided step by step instructions for completing the ITAR Excel CAP Form.[12] Specifically, the ITAR Team's IT CAP Validation guidance did not include OMB Circular A-123 requirements to:

- (U) communicate corrective actions to the appropriate level of the Agency;
- (U) require prompt resolution by management;
- (U) perform internal control testing to validate the correction of the control deficiency;
- (U) ensure that accurate records of the status of the identified control deficiency are maintained and updated throughout the entire process;
- (U) ensure that corrective action plans are consistent with laws, regulations, and Agency policy; or
- (U) determine and support in writing that control deficiencies are corrected when sufficient corrective actions have been taken and validated.

(U//[redacted]) The [redacted] Comptroller should develop, document, and implement a policy to validate that corrective actions have been effectively designed and implemented in accordance with OMB Circular A-123 criteria.

(U//[redacted]) The [redacted] did not ensure control deficiencies were corrected for two of the six IT CAP Validation packages. Specifically, the ITAR Team did not provide documentation to support performance of internal control testing to validate the correction of the control deficiencies identified in IT CAP #11 and 14, as required by OMB Circular A-123. *The [redacted] Comptroller should test all controls to ensure deficiencies are corrected prior to closing corrective action plans. Specifically, the [redacted] Comptroller should certify that the controls are implemented correctly, operating as intended, and producing the desired outcome.* In addition, the ITAR Team did not maintain accurate records of the status of the identified control deficiency, as required by OMB Circular A-123, because the IT CAP Validation packages did not include adequate support for closing IT CAPs #11 and 14. *The [redacted] Comptroller should maintain an updated and accurate status for identified control deficiencies throughout the entire process.*

[12] ITAR Excel CAP Forms are Excel worksheets used by the ITAR Team to document the IT exceptions identified and the remediations made for each.

[redacted]

(U) Conclusion

(U//[redacted]) The ITAR Team presented an inaccurate assessment of the [redacted] control environment to Navy management by incorrectly closing two of the six IT CAP Validation Packages it verified as complete.[13] The Navy leadership relies on accurate assessments of its IT systems to implement appropriate general and application controls. Until the [redacted] Comptroller ensures his staff consistently follows OMB Circular A-123 guidance to correct control deficiencies, the Navy's control environment will remain at risk for unauthorized access.

(U) Management Comments on the Finding and Our Response

(U) [redacted] Comptroller Comments on the IT CAP Validation Process

(U) The [redacted] Comptroller non-concurred with specific results presented in the finding. However, he acknowledged that improvements were needed and provided several attachments of the updates. Specifically, the [redacted] Comptroller provided the [redacted] ITAR Validation SOP and the results of [redacted] reassessment of the IT CAPs.

(U) Our Response

(U) While the [redacted] Comptroller has taken action since our review of ITAR Validations completed as of May 2017, we did not consider the updated policies because they were not implemented or available during the course of the audit. While the [redacted] Comptroller issued a [redacted] ITAR Validation SOP and reassessed the IT CAPs for accuracy, the documentation provided is dated for 1st quarter FY 2018. We will test the effectiveness of these corrective actions as part of the FY 2018 audit. [redacted] should continue to validate their IT CAPs in accordance with OMB Circular A-123 going forward.

(U) Recommendations, Management Comments, and Our Response

(U) Recommendation B.1

(U) We recommend that the [redacted] Comptroller:

[13] (U) We reviewed all 6 IT CAP Validation Packages the ITAR Team verified as complete, as of May 2017. [redacted]

a. (U//[redacted]) Develop, document, and implement a policy to validate that corrective actions have been effectively designed and implemented in accordance with Office of Management and Budget Circular A-123 criteria.

(U) [redacted] *Comptroller Comments*

(U) The [redacted] Comptroller agreed with the recommendation, stating he developed and documented a CAP Validation SOP in accordance with OMB Circular A-123.

(U) Our Response

(U) Comments from the [redacted] Comptroller addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify the new policy has been effectively designed and implemented in accordance with OMB Circular A-123 criteria.

b. (U//[redacted]) Test all corrected controls to ensure deficiencies are corrected prior to closing Information Technology Corrective Action Plans. Specifically, determine whether the controls are implemented correctly, operating as intended, and producing the desired outcome.

(U) [redacted] *Comptroller Comments*

(U) The [redacted] Comptroller agreed with the recommendation, stating he revalidated IT CAPs #11 and #14 using the new CAP Validation SOP.

(U) Our Response

(U) Comments from the [redacted] Comptroller addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify the new policy ensures deficiencies are corrected, and controls are operating as intended and producing the desired outcome prior to closing IT CAPs.

c. (U//[redacted]) Maintain an updated and accurate status for identified control deficiencies throughout the entire process.

(U) [redacted] *Comptroller Comments*

(U) The [redacted] Comptroller agreed with the recommendation, stating he will accurately track the status of identified control deficiencies and follow the new CAP Validation SOP.

(U) Our Response

(U) Comments from the [redacted] Comptroller addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify he is maintaining an updated and accurate status of the IT CAPs.

(U) Appendix

(U) Scope and Methodology

(U) We conducted this performance audit of the [redacted] from May 2017 through November 2017 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.

(U) Universe and Sample

(U//[redacted]) We used the [redacted] JVs developed during the 3rd Quarter FY 2017 to identify a universe of adjustments made to the April 1, 2017, through June 30, 2017, accounting data. This data was extracted by the [redacted] Financial Audit Readiness Team. The universe consisted of 74 JVs, valued at [redacted] We nonstatistically selected 10 JVs, valued at [redacted], for review. Based on guidance from the Federal Audit Manual, Volume 1, Section 400, "Testing Phase," we identified the following factors:

(U) • 90 percent Confidence Level;

(U) • 5 percent Tolerable Rate;

(U) • 0 percent Expected Population Deviation Rate;

(U) • Moderate Control Risk; and

(U) • Limited Population of 3rd Quarter FY 2017 JVs.

(U) Using these factors, we determined that zero deviations were acceptable. As a result, just one exception would indicate that internal controls were not working effectively and could not be relied on.

(U) We used the IT CAP Validation Packages closed by the ITAR Team as of May 2017, to identify a universe of packages verified as complete. The universe consisted of six IT CAPs. We reviewed all six packages to determine if we agreed with the ITAR Team's determination for each.

(U) Work Performed

(U) We collected, reviewed, and analyzed documentation for 10 JVs valued at [redacted], to determine whether the [redacted] adequately documented and supported its adjustments in accordance with the DoD FMR. We obtained JV documentation which [redacted]

included JV entry forms, Estimated Accrual Calculations, and Trial Balance screenshots. The [redacted] provided the Appointment/Termination Records (Form DD577s) separately from the JV package, to support the JV approver designations. We used the DoD FMR as the basis for our analysis. The DoD FMR requires that support be attached to a copy of the JV; therefore, we requested the [redacted] Comptroller provide complete JV packages for our review.

(U) We reviewed prior Notices of Findings and Recommendations related to JV adjustments. We obtained and reviewed Navy JV Policy and the [redacted] JV SOPs to determine whether they met the requirements identified in the DoD FMR.

(U) We determined whether the ITAR Team adequately tested the corrected controls and maintained an accurate status for all control deficiencies identified, in accordance with OMB Circular A-123. To do this, we collected, reviewed, and analyzed documentation for six IT CAP Validation Packages. We obtained IT CAP Validation Packages that the ITAR Team closed before May 2017. We used OMB Circular A-123 as the basis for our analysis. We reviewed the ITAR Team's IT CAP Validation Policy to determine whether it met the requirements identified in OMB Circular A-123.

(U) Use of Computer-Processed Data

(U) We did not use computer-processed data to perform this audit.

(U) Prior Coverage

(U) No prior coverage has been conducted on the [redacted] JV adjustments or the ITAR Team's IT CAP validation process during the last 5 years.

(U) Management Comments

(U) [redacted]

DEPARTMENT OF THE NAVY

[redacted]

IN REPLY REFER TO

[redacted]

06 December 2017

(U) MEMORANDUM FOR DEPARTMENT OF DEFENSE, OFFICE OF INSPECTOR GENERAL

(U) Subj: Response to DoDIG Draft Report, "[redacted] Financial Statement Compilation Adjustments and Information Technology Corrective Action Plan Validation Process", November 22, 2017 ([redacted])

(U) Encl: (1) Management Comments to DoDIG Draft Report

1. (U) [redacted] response to the subject draft audit report is attached. Enclosure (1) addresses and provides:
   - Non-concurrence with three specific results presented in Findings A and B, and
   - Concurrence with Recommendations A.1 and B.1.

2. (U) This response reports on the progress being made to implement corrective actions to address Recommendations A.1 and B.1. [redacted] estimates that corrective actions to satisfy Recommendation A.1 will be implemented by 31 January 2018. I affirm that corrective actions to fully remediate Recommendation B.1 have been implemented as of 6 December 2017. Documentation to support [redacted] remediation efforts has been attached to Enclosure (1).

3. (U) We are confident that the audit communication improvements discussed during the 9 November 2017 Exit Conference will increase efficiency and mitigate misinterpretation of [redacted] policy, process, systems, controls, and documentation. Specifically, access to the [redacted] at [redacted] will allow the DoDIG to perform the audit on-site at [redacted] with an independent communication channel needed to engage with DoDIG leadership. The DoDIG's ability to perform the audit on-site at [redacted] will promote timely follow-up/feedback with [redacted] stakeholders to enable the control environment assessment.

4. (U) My point of contact for this action is [redacted], who can be reached at [redacted], or by email at [redacted]

[redacted]

Page 1 of 1

(U) [redacted] (cont'd)

(U) Management Comments to Draft Report – The [redacted] Financial Statement Compilation Adjustments and Information Technology Corrective Action Plan Validation Process

([redacted])

(U) General Management Comments: [redacted] Comptroller thanks the Department of Defense Inspector General (DoDIG) for their audit over [redacted] Journal Vouchers (JVs) and Information Technology (IT) Corrective Action Plan Validation process. We agree with and appreciate the recommendations within the DoDIG Draft Report, however we take exception with the presentation of the findings over the Financial Statement Compilation Adjustments and the IT Corrective Action Plan Validation. Specifically, [redacted] does not agree with the following results reported in Findings A and B:

- (U) 10 of 10 JVs tested did not meet the five elements of documentation identified as revisions in the June 2017 update to DoD FMR Volume 6A, Chapter 2. [redacted] assessed this JV population and determined 6 of 10 JVs included evidence to address the required documentation elements, demonstrating preparation SOPs have been properly designed. We have attached the updated JV Form (Attachment 1) and Log (Attachment 2) templates which adhere to the *Department of the Navy Policy for Recording Business Entries Including Journal Vouchers Update* (dtd 19 October 2017) and further strengthen the alignment of the [redacted] JV process to the five required elements of documentation. [Finding A]
- (U) The draft report conveyed that [redacted] internal FY17 Q3 Quality and Compliance Review assessed that six of seven JVs were correctly prepared and processed. [redacted] esting workbooks and results identified that four of seven JVs were prepared and processed correctly, demonstrating strength and objectivity of [redacted] JV validation processes. We have attached JV Quality and Compliance Testing SOP (Attachment 3) updates to further strengthen the alignment of the five elements of documentation as a part of internal control testing validations. [Finding A]
- (U) Two of six IT CAPs verified as complete were incorrectly closed. [redacted] reassessed noted exceptions and validated that the IT CAPs were correctly closed for the specific findings and that additional comments included in validation packages contributed to miscommunication. We have updated [redacted] IT Corrective Action and Validation SOP (Attachment 4) in accordance with OMB Circular A-123 and attached reassessed IT CAP Validation Packages (Attachment 5) for IT CAP # 11 and #14 to demonstrate closure of CAP specific findings. [Finding B]

(U) [redacted] s commited to achieving a sustained auditable financial environment. Accordingly, we have reviewed the recommendations and have either already implemented corrective actions or are in the process of implementing corrective actions that we feel meet the intent of the report's recommendations.

(U) [redacted] (cont'd)

(U//[redacted]) Recommendation A.1: We recommend that [redacted] Comptroller:

a) (U//[redacted]) Develop policies and implement procedures to ensure JVs contain valid GL accounts, include adequate documentation, reflect correct dollar amounts, contain accurate financial information, and contain required approvals.

b) (U//[redacted]) Implement quality control review procedures in accordance with the Department of Defense (DoD) Financial Management Regulation (FMR).

(U) Management Comments: Concur. We understand we cannot achieve or sustain an auditable financial environment without fully supporting adjustments to the General Ledger that are approved by authorized individuals. Our corrective actions to meet the recommendations are as follows:

(U) Corrective Action	(U) Status	(U) Estimated (or actual) Completion Date
(U) [redacted] does not create separate internal JV policies and instead adheres to policies established by the Department of the Navy (DON). The Assistant Secretary of the Navy, Financial Management and Comptroller (ASN FM&C) issued Policy Memorandum 5-17, *Department of the Navy Policy for Recording Business Entries Including Journal Vouchers Update*, on 19 October 2017. We will fully implement the policy as of 31 December 2017 by performing the following: • (U) Update our existing JV log with additional attributes defined by the new policy; and • (U) Update our existing JV Form with additional attributes required by the new policy.	In progress	31 December 2017
(U) Consolidate the existing four JV Standard Operating Procedures (SOPs) into a master [redacted] JV SOP which will reference the updated DON JV Policy and the following specific information that are in accordance with the DoD FMR: • (U) Include justification to the Treasury Financial Manual for GL accounts used; • (U) Include updated procedures to conduct post-validation review of the JVs posted to the General Ledger; • (U) Standardize and list available supporting documentation to include in the JV package; and • (U) Instructions for completing the review and approval of JVs.	In progress	31 January 2018

(U) [redacted] (cont'd)

(U) Updated [redacted] Journal Voucher Quality and Compliance Testing SOP to include references of our existing DON Office of Financial Operations (FMO)-compliant monthly Quality Control procedures required by the DoD FMR, including: • (U) Identification and support for specific expenditure or receipt accounts used; • (U) Adequate information to support the validity and amount of the transactions; • (U) Support for the calculation of the dollar amount of the adjustment; • (U) Identification and support for specific accounts used; and • (U) Evidence of review and approval.	Complete	6 December 2017

(U//[redacted]) Recommendation B.1: We recommend that [redacted] Comptroller:

a) (U//[redacted]) Develop, document, and implement a policy to validate that corrective actions have been effectively designed and implemented in accordance with Office of Management and Budget Circular A-123 criteria.

b) (U//[redacted]) Test all corrected controls to ensure deficiencies are corrected prior to closing Information Technology Corrective Action Plans. Specifically, determine whether the controls are implemented correctly, operating as intended, and producing the desired outcome.

c) (U//[redacted]) Maintain an updated and accurate status for identified control deficiencies throughout the entire process.

(U) Management Comments: Concur. We have taken the following steps to strengthen the IT CAP validation process in accordance with requirements established by the OMB Circular A-123:

(U) Corrective Action	(U) Status	(U) Estimated (or actual) Completion Date
(U) Documented a comprehensive Corrective Action and Validation SOP in accordance with OMB Circular A-123 that provides guidance on the following topics: • (U) IT Control Deficiency Identification • (U) Root Cause Analysis • (U) Deficiency Assessment & Prioritization • (U) POA&Ms and Corrective Action Plans • (U) Deficiency Tracking and Reporting • (U) Validation Testing Procedures	Complete	6 December 2017
(U) Revalidated IT CAP #11 and #14 using the updated Corrective Action and Validation SOP to verify guidance and mitigate identified exceptions.	Complete	6 December 2017

(U) [redacted]

(U) We will continue to accurately track the status of identified control deficiencies and follow the detailed guidelines outlined in the 'Deficiency Tracking and Reporting' section of the updated Corrective Action and Validation SOP.	Complete	6 December 2017

(U) Acronyms and Abbreviations

CAP	Corrective Actions Plan
FMR	Financial Management Regulation
IT	Information Technology
ITAR	Information Technology Audit Readiness
JV	Journal Voucher
[redacted]	[redacted]
OMB	Office of Management and Budget
SLA	Service Level Agreement
SOP	Standard Operating Procedure

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