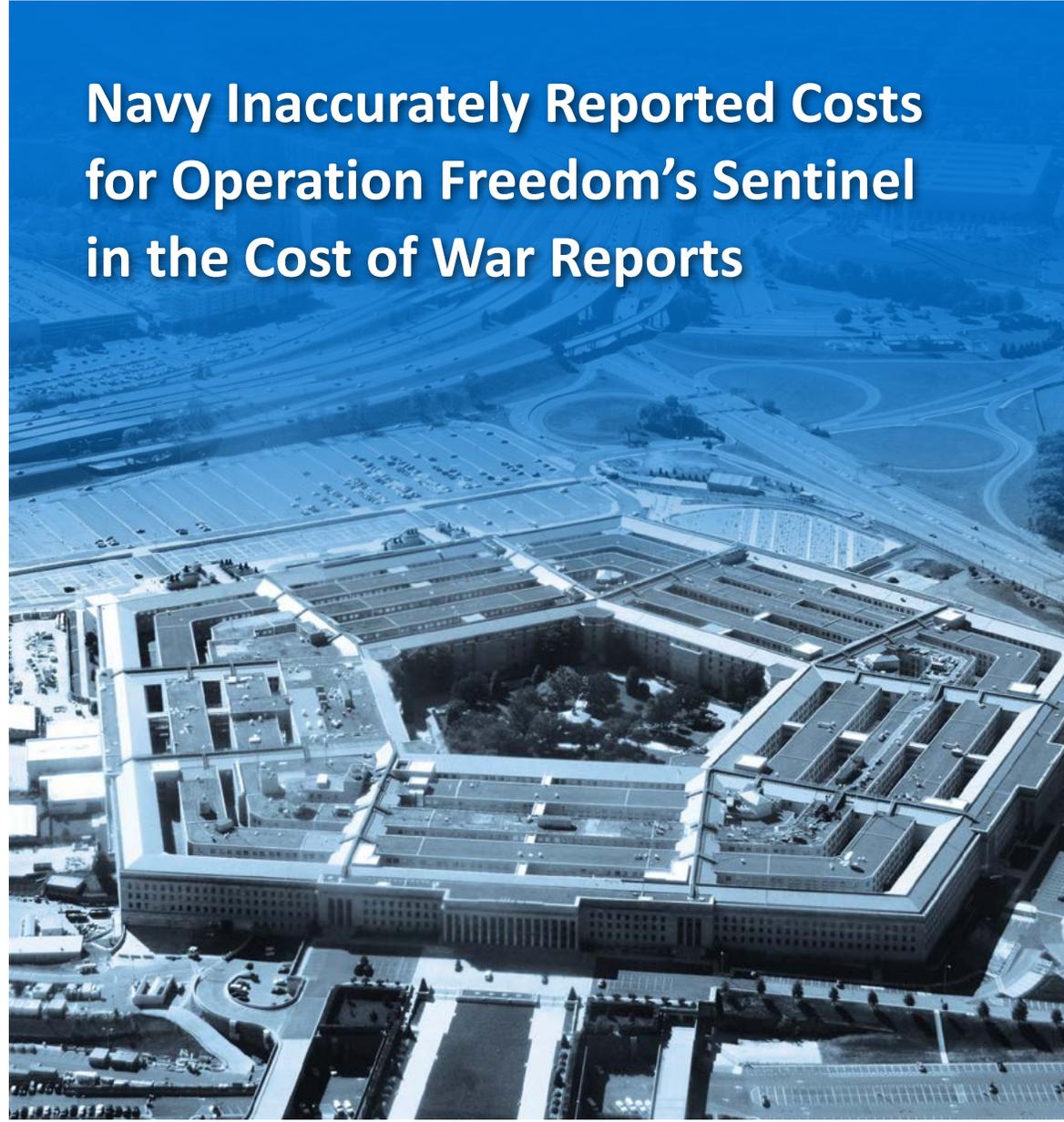




INSPECTOR GENERAL

U.S. Department of Defense

MARCH 16, 2017



Navy Inaccurately Reported Costs for Operation Freedom's Sentinel in the Cost of War Reports

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Results in Brief

Navy Inaccurately Reported Costs for Operation Freedom's Sentinel in the Cost of War Reports

March 16, 2017

Objective

We determined the accuracy of the Navy's obligations and disbursements supporting Operation Freedom's Sentinel (OFS), as reported, for select Navy appropriations, in the Cost of War (CoW) report.

Background

We performed this audit to determine the accountability of DoD funds supporting overseas contingency operations (OCO), as required by the Inspector General Act of 1978, as amended.

Under OFS, an OCO that began January 1, 2015, U.S. Forces transitioned from a combat mission to a train, advise, and assist mission for the Afghan National Defense and Security Forces. OFS also supports counterterrorism operations against the remnants of al Qaeda and its associates.

Findings

The Office of the Assistant Secretary of the Navy (Financial Management and Comptroller), Deputy Assistant Secretary of Financial Operations, Accounting and Financial Reporting Division, and Deputy Assistant Secretary for Budget could not support \$866.3 million (91.3 percent) in obligations reported in the first quarter FY 2016 CoW reports. This occurred because they did not establish adequate processes to identify transactions for OCOs within the Standard Accounting and

Findings (cont'd)

Reporting System–Field Level, a Navy accounting system. As a result, the Navy could not provide assurance that it accurately reported the OFS obligations and disbursements to Congress for first quarter FY 2016, and it could not ensure accountability for the spending of OCO funds.

Our review of the Navy's internal controls identified significant inaccuracies within the Navy's first quarter FY 2016 CoW reports. Specifically, the Navy inaccurately reported \$20.1 million in obligations and \$85.4 million in disbursements for first quarter FY 2016 due to the lack of adequate standard operating procedures (SOPs).

Additionally, the Navy inappropriately reported more than the incremental costs in the CoW report. Incremental costs are additional costs to the DoD that would not have been incurred if the contingency operation had not been supported. Public Law 113-235, as implemented in the DoD Financial Management Regulation, volume 12, chapter 23, limits the DoD to reporting incremental contingency operation costs for OFS in the CoW report. The Navy misstated the costs reported because Deputy Assistant Secretary for Budget personnel did not include the requirement to limit reporting to incremental costs in its implementing guidance.

The Navy could not identify all transactions for Navy OCOs which impacted us determining the full amount of the misstatements reported in the CoW report.

Recommendations

Deputy Assistant Secretary of Financial Operations, Accounting and Financial Reporting Division, and Deputy Assistant Secretary for Budget, in coordination with the Comptroller, Pacific Fleet Command, and the Comptroller, U.S. Fleet Forces Command, should reengineer processes to identify all transactions for Navy OCOs. The Deputy Assistant Secretary for Budget, in coordination with budget submitting offices and support activities, should develop and implement



Results in Brief

Navy Inaccurately Reported Costs for Operation Freedom's Sentinel in the Cost of War Reports

Recommendations (cont'd)

SOPs that cover end-to-end CoW reporting processes. Furthermore, the Deputy Assistant Secretary for Budget should develop and implement a consistent methodology to report only incremental costs.

Management Comments and Our Response

The Associate Director for the Office of Budget, responding for the Deputy Assistant Secretary of Financial Operations, Accounting and Financial Reporting Division, and Deputy Assistant Secretary for Budget, agreed with our findings and recommendations.

The Associate Director stated that the transition to the Standard Accounting, Budgeting, and Reporting System (SABRS), the Marine Corps' accounting system, and development and implementation of SOPs would allow the Navy to identify all transactions for OCOs. The Navy anticipates the completion of the SABRS transition for Fleet Commands in FY 2019 and the development and implementation of SOPs by June 30, 2017. However, the Associate Director did not provide the procedures they will implement to identify Navy's OCO transactions prior to the transition to SABRS. Therefore, the recommendation is unresolved.

In addition, the Naval Audit Service is currently conducting an audit of the Marine Corps obligations and disbursements supporting OFS and should be able to verify whether SABRS can produce a universe of OCO transactions supporting the CoW report. Therefore, we will close this recommendation once the Naval Audit Service verifies that SABRS can produce a universe of Marine Corps OCO transactions, we verify that SABRS can produce a universe of Navy OCO transactions, and we verify that the SOPs clearly identify the methodology for calculating operational costs allocated to OCOs.

The Associate Director also agreed that an updated SOP is required and has already started updating the SOP and existing guidance. Therefore, the recommendation is resolved and remains open. We will close this recommendation once we are provided a copy of the new SOP and verify that it includes procedures for the receipt, review, and reporting of obligations and disbursements for the CoW reports.

Furthermore, the Associate Director agreed to develop revised guidance for determining and reporting incremental costs. Therefore, the recommendation is resolved and remains open. We will close this recommendation once we receive the new guidance from the Associate Director and verify that it identifies a consistent methodology for allocating and documenting operational costs for OCOs.

Because management comments did not fully address the recommendation to reengineer processes to identify Navy OCO transactions, we request that the Deputy Assistant Secretary of Financial Operations, Accounting and Financial Reporting Division, and Deputy Assistant Secretary for Budget address the recommendation specifics by March 31, 2017. Please see the Recommendations Table on the following page for the status of the recommendations.

Recommendations Table

Management	Recommendations Unresolved	Recommendations Resolved	Recommendations Closed
Deputy Assistant Secretary of Financial Operations, Accounting and Financial Reporting Division, Office of the Assistant Secretary of the Navy (Financial Management and Comptroller)	A	None	None
Deputy Assistant Secretary for Budget, Office of the Assistant Secretary of the Navy (Financial Management and Comptroller)	A	B.1 and B.2	None

Please provide Management Comments by March 31, 2017.

Note: The following categories are used to describe agency management's comments to individual recommendations.

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





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

March 16, 2017

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/CHIEF
FINANCIAL OFFICER, DOD
NAVAL INSPECTOR GENERAL (AUDIT/COST MANAGEMENT DIVISION)
AUDITOR GENERAL, NAVAL AUDIT SERVICE

SUBJECT: Navy Inaccurately Reported Costs for Operation Freedom's Sentinel in the Cost of
War Reports (Report No. DODIG-2017-067)

We are providing this report for your review and comment. The Navy could not support \$866.3 million (91.3 percent) in obligations reported in the first quarter FY 2016 Cost of War reports for Operation Freedom's Sentinel. Furthermore, the Navy did not accurately report \$20.1 million in obligations and \$85.4 million in disbursements in the first quarter FY 2016 Cost of War reports. We conducted this audit in accordance with generally accepted government auditing standards.

We considered management comments on a draft of this report when preparing the final report. Comments from the Associate Director for the Office of Budget on Recommendations B.1 and B.2 addressed all specifics of the recommendations and conformed to the requirements of DoD Directive 7650.3; therefore, we do not require additional comments. We request that the Deputy Assistant Secretary of Financial Operations, Accounting and Financial Reporting Division, and Deputy Assistant Secretary for Budget provide additional comments on Recommendation A by March 31, 2017.

Please send a PDF file containing your comments to audfmr@dodig.mil. Copies of your comments must have the actual signature of the authorizing official for your organization. We cannot accept the /Signed/ symbol in place of the actual signature. If you arrange to send classified comments electronically, you must send them over the SECRET Internet Protocol Router Network (SIPRNET).

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

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

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

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Introduction

Objective

We determined whether the Navy had adequate accountability of DoD funds supporting Operation Freedom's Sentinel (OFS) by determining the accuracy of obligations and disbursements, as reported, for select Navy appropriations, in the Cost of War (CoW) report. Although the Navy could not provide transactions to support all OFS obligations and disbursements reported in the CoW reports, we completed internal control reviews that included tests of the accuracy of the OFS obligations and disbursements the Navy reported in the CoW report. See Appendix A for the audit scope and methodology and Appendix B for prior audit coverage related to the audit objective.

Background

In December 2014, the Secretary of Defense announced the conclusion of Operation Enduring Freedom, the overseas contingency operation (OCO) established in Afghanistan in response to the September 11, 2001, attacks. The Secretary also announced the beginning of OFS, effective January 1, 2015, to execute the North Atlantic Treaty Organization's Resolute Support mission to train, advise, and assist Afghan security forces, and to continue counterterrorism efforts against the remnants of al Qaeda.

On April 1, 2015, in accordance with Section 8L of the Inspector General Act of 1978, as amended, the Chair of the Council of the Inspectors General on Integrity and Efficiency designated the DoD Inspector General as the Lead Inspector General for OFS. The Lead Inspector General is required to review and determine the accuracy of information provided by Federal agencies relating to obligations and disbursements; costs of programs and projects; accountability of funds; and award and execution of major contracts, grants, and agreements in support of contingency operations.¹

CoW Report

On October 29, 2015, personnel at the Deputy Comptroller (Program/Budget), Office of the Under Secretary of Defense (Comptroller) (OUSD[C]) issued the FY 2016 Instructions for Overseas Contingency Operations Cost Reporting. The guidance requires personnel who submit costs into the Contingency Operations Reporting and Analysis Service (CORAS)² to review, validate, and affirm the

¹ Inspector General Act of 1978, as amended, Section 8L, "Special Provisions Concerning Overseas Contingency Operations," (d)(2)(C).

² CORAS, owned by the Defense Finance and Accounting Service, is an integrated system for reporting disaster and contingency efforts.

accuracy of the data as a fair representation of costs associated with each active OCO. The CoW report summarizes obligation and disbursement data for OCOs, including OFS, and summarizes obligation data from CORAS by Component, appropriation, and operation.

Congress authorized \$63.9 billion for OCOs in FY 2015 under Public Law 113-235³ and \$58.3 billion for OCOs in FY 2016 under Public Law 114-113.⁴ Furthermore, Public Law 113-235 requires Components to report monthly the incremental costs for Operation Inherent Resolve, Operation Enduring Freedom, and any named successor operations, including OFS, in the CoW report.⁵ The DoD Financial Management Regulation (DoD FMR) defines incremental costs as additional costs to the DoD Component appropriations that would not have been incurred if the contingency operation had not been supported.

The DoD FMR also requires that costs reported for contingency operations be limited to the incremental costs of the operation.⁶ As of December 2015, the Navy reported \$949.0 million of the DoD's \$7.7 billion in OFS obligations and \$505.0 million of DoD's \$4.8 billion in OFS disbursements in the CoW report.

The National Defense Authorization Act for Fiscal Year 2006 requires the Secretary of Defense to submit the CoW report to the U.S. Comptroller General after the end of each reporting month.⁷ In addition, the DoD FMR requires controls, accounting systems, and procedures to provide proper identification and recording of costs incurred to support OCOs.⁸

Roles and Responsibilities

CoW Reporting

Deputy Comptroller (Program/Budget), OUSD(C) personnel are responsible for publishing in the CoW report to Congress all OCO costs reported in CORAS from the Navy. Personnel at the Office of the Assistant Secretary of the Navy (Financial Management and Comptroller), Deputy Assistant Secretary for Budget (OASN/FMB) are responsible for entering all Navy OCO monthly

³ Public Law 113-235, "Consolidated and Further Continuing Appropriations Act, 2015" division C, title IX, "Overseas Contingency Operations," December 16, 2014.

⁴ Public Law 114-113, "Consolidated Appropriations Act, 2016," division C, title IX, "Overseas Contingency Operations/ Global War on Terrorism," December 18, 2015.

⁵ The Consolidated Appropriations Act, 2016 established the FY 2016 CoW reporting requirement; however, it did not become Public Law 114-113 until December 18, 2015. Therefore, Public Law 113-235 required Components to continue to report monthly incremental costs in the CoW report for first quarter FY 2016.

⁶ DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 12, chapter 23, "Contingency Operations," section 230406, "Contingency Operations Cost Categories and Definitions."

⁷ Public Law 109-163, "National Defense Authorization Act for Fiscal Year 2006," section 1221, "War-Related Reporting Requirements," division A, title XII, "Matters Relating to Foreign Nations," January 6, 2006.

⁸ DoD FMR volume 12, chapter 23, "Contingency Operations," section 230104, "DoD Policy Requirements."

execution amounts for appropriations, budget activities, and budget line items into CORAS, using a cost breakdown structure.⁹ Navy budget submitting offices (BSOs) are responsible for submitting OFS costs to OASN/FMB for inclusion in CORAS. Navy support-activity personnel are responsible for reporting the execution of OFS obligations and disbursements to their assigned BSOs, when applicable. Support activities are those activities that submit OCO costs to the BSO level for inclusion in the CoW report. Figures 1 and 2 in Appendix C show the roles and responsibilities of the activities reporting for U.S. Fleet Forces Command (USFFC); Commander, U.S. Pacific Fleet (COMPACFLT); Naval Sea Systems Command (NAVSEA); and Naval Air Systems Command (NAVAIR) for the CoW report.

Financial Data Reporting

The Office of the Assistant Secretary of the Navy (Financial Management and Comptroller), Deputy Assistant Secretary of Financial Operations, Accounting and Financial Reporting Division (OASN/FMO-2), governs financial data and processes to produce accurate, reliable, and timely Department of the Navy financial reports.

Review of Internal Controls

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.¹⁰ OASN/FMO-2 and OASN/FMB personnel could not provide transaction-level detail supporting OFS costs reported in the CoW reports. Additionally, the OASN/FMB and the commands reviewed did not have adequate processes to ensure the accuracy of Navy OFS costs, as reported in the first quarter FY 2016 CoW reports. We will provide a copy of the report to the senior officials responsible for internal controls within the Navy.

⁹ The cost breakdown structure is a hierarchical system for subdividing a program into various components, such as functions and sub-functions, to provide for more effective management and control of the program, especially cost control.

¹⁰ DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013.

Finding A

Navy Personnel Could Not Provide Transactions for OFS Costs Reported in the Cost of War Reports

OASN/FMO-2 and OASN/FMB personnel could not support \$866.3 million (91.3 percent) in obligations or the related disbursements reported in the first quarter FY 2016 CoW reports.¹¹ This occurred because the personnel did not establish adequate processes to identify OCO transactions within the Standard Accounting and Reporting System–Field Level (STARS-FL), a Navy accounting system. As a result, the Navy could not provide assurance that it accurately reported the OFS obligations and disbursements to Congress for first quarter FY 2016 and could not ensure accountability for the spending of OCO funds.

Incomplete Universe of OFS Transactions

OASN/FMO-2 and OASN/FMB personnel did not have adequate accountability of DoD funds supporting OFS because they did not provide transaction-level detail from STARS-FL, one of the four accounting systems used by the Navy to record transactions in the general ledger.¹² Specifically, OASN/FMO-2 and the OASN/FMB personnel could not provide a complete universe of OCO transactions for the first quarter FY 2016.¹³ The DoD FMR requires that controls, accounting systems, and procedures provide, in financial records, proper identification and recording of costs incurred in supporting OCOs.¹⁴ Despite multiple attempts to obtain a complete universe of transactions and elevating the request to the Deputy Assistant Secretary of the Navy (Financial Operations), Navy personnel could not provide a universe of transactions for STARS-FL. These transactions represented \$866.3 million of \$948.8 million (91.3 percent), of the total obligations and the related disbursements reported for the CoW reports.

OASN/
FMO-2 and
the OASN/FMB
personnel could not
provide a complete
universe of OCO
transactions for the
first quarter
FY 2016.

¹¹ Navy reported disbursements of \$80.7 million for military personnel and \$424.0 million for Operations and Maintenance costs during first quarter FY 2016. The CoW report does not include year-to-date disbursements for the other appropriations.

¹² The four accounting systems are STARS-FL, Navy Enterprise Resource Planning (ERP), STARS–Headquarters Claimant Module (STARS-HCM), and Standard Accounting Budgeting and Reporting System (SABRS).

¹³ A universe of transactions is the collection of all individual accounting transactions, sometimes from multiple systems, that have certain pre-defined attributes typically used to support an audit.

¹⁴ DoD FMR volume 12, chapter 23.

Inability to Identify OFS Transactions in STARS-FL

OASN/FMO-2 and OASN/FMB personnel could not provide a universe of OFS transactions because they could not identify in STARS-FL the transactions that supported OFS obligations and disbursements reported in the CoW reports. Navy BSOs for COMPACFLT, USFFC, and four other locations used STARS-FL to record their OCO obligations and disbursements. Table 1 illustrates the first quarter FY 2016 obligation amounts by accounting system and BSO.

OASN/FMO-2 and OASN/FMB personnel ... could not identify in STARS-FL the transactions that supported OFS obligations and disbursements reported in the CoW reports.

Table 1. BSO Obligations by System for First Quarter FY 2016

Accounting System	Budget Submitting Office	Total Obligation Amounts Reported
STARS-FL	COMPACFLT	\$448,791,000
	USFFC	317,434,110
	BUPERS	91,826,500
	CNIC	5,759,620
	RESFOR	2,422,490
	NAVFAC	117,000
	STARS-FL Subtotal	\$866,350,720
Navy ERP	NAVAIR	40,931,000
	NAVSUP	29,687,340
	NAVSEA	10,249,230
	SPAWAR	1,324,000
	Navy ERP Subtotal	\$82,191,570
SABRS	DONAA	199,700
	HQMC	100,000
	SABRS Subtotal	\$299,700
STARS-HCM	NSMA	6,524
	NAVSEA	0
	STARS-HCM Subtotal	\$6,524
TOTAL Obligations		\$948,848,514

Source: BSO submissions to OASN/FMB.

The legend is on the next page.

LEGEND

COMPACFLT	Commander, U.S. Pacific Fleet
USFFC	U.S. Fleet Forces Command
BUPERS	Bureau of Navy Personnel
CNIC	Commander Navy Installations
RESFOR	Naval Reserve Force
NAVFAC	Naval Facilities Engineering Command
NAVAIR	Naval Air Systems Command
NAVSUP	Naval Supply Systems Command
NAVSEA	Naval Sea Systems Command
SPAWAR	Space and Naval Warfare Systems Command
DONAA	Department of the Navy Assistant for Administration
HQMC	Headquarters Marine Corps
NSMA	Navy Systems Management Activity

OASN/FMB guidance requires¹⁵ the activities using the STARS-FL accounting system to use a contingency code¹⁶ to identify the funds spent on OCOs. To assign contingency codes to transactions, Navy personnel prepared cost transfer documents¹⁷ to move the OFS funds to an internal account called a memorandum account.¹⁸ Navy personnel used the memorandum accounts to summarize the OCO costs for the support activities. Navy BSO personnel submitted summary costs to OASN/FMB personnel for inclusion in their CoW report submission. According to OASN/FMO-2, they do not have visibility at their level of the data recorded in the memorandum accounts, because the memorandum accounts are not reported in the Navy financial statements. Therefore, OASN/FMO-2 and OASN/FMB personnel could not provide a universe of OCO transactions for first quarter FY 2016. To ensure the accuracy of the obligations and disbursements spent using OFS funds, OASN/FMO-2 and OASN/FMB personnel, in coordination with the Navy commands, need to reengineer their processes to identify the Navy OCO transactions, down to the specific operation.

¹⁵ Department of Navy, "Contingency Reporting Guidance," September 29, 2008.

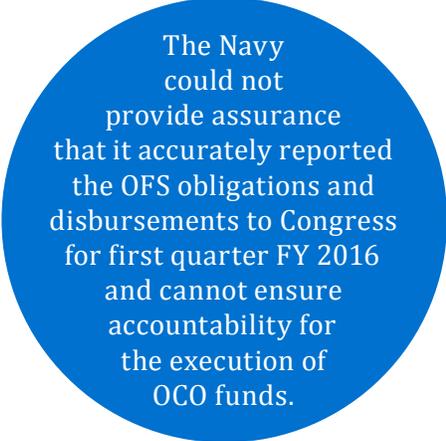
¹⁶ Contingency codes are used to assign a cost to a specific OCO.

¹⁷ A Navy OCO cost transfer moves commitment, obligation, accrual, and disbursement amounts between contingency codes.

¹⁸ A Navy 9000 memorandum account is an internal account that is used for budgetary and tracking purposes.

Inability to Determine the Accuracy of OFS Transactions in STARS-FL

To increase the effectiveness of oversight capabilities across agencies and provide results to help Congress and agency leadership make informed program, policy, and funding decisions, the Navy must be able to provide detailed cost information on its spending for OCOs. Without a universe of OCO transactions from STARS-FL, the Navy could not provide assurance that it accurately reported the OFS obligations and disbursements to Congress for first quarter FY 2016 and cannot ensure accountability for the execution of OCO funds.



The Navy could not provide assurance that it accurately reported the OFS obligations and disbursements to Congress for first quarter FY 2016 and cannot ensure accountability for the execution of OCO funds.

Recommendation, Management Comments and Our Response

Recommendation A

We recommend that the Deputy Assistant Secretary of Financial Operations, Accounting and Financial Reporting Division, and Deputy Assistant Secretary for Budget, in coordination with the Comptroller, Pacific Fleet Command, and the Comptroller, U.S. Fleet Forces Command, reengineer processes to identify the Navy's transactions for overseas contingency operations.

Deputy Assistant Secretary of Financial Operations, Accounting and Financial Reporting Division, and Deputy Assistant Secretary for Budget

The Associate Director for the Office of Budget, responding on behalf of the Deputy Assistant Secretary of Financial Operations, Accounting and Financial Reporting Division, and the Deputy Secretary for Budget agreed. The Associate Director stated that Navy's transition to the Standard Accounting, Budgeting, and Reporting System (SABRS), the Marine Corps' accounting system, and the development and implementation of SOPs would identify the Navy's OCO transactions and cost allocations used to support CoW reporting. The tentative completion date for SABRS transition is FY 2019. The estimated date for the initial update to the Navy and Fleet SOPs is June 30, 2017.

Our Response

Comments from the Associate Director did not fully address the recommendation. Specifically, the comments did not address how Navy personnel will reengineer current processes to identify Navy's OCO transactions prior to the transition to SABRS in FY 2019. Therefore, the recommendation is unresolved. We request that the Deputy Assistant Secretary of Financial Operations, Accounting and Financial Reporting Division, and Deputy Assistant Secretary for Budget provide further comments to the final report by March 31, 2017, on what procedures they will implement to identify Navy's OCO transactions prior to the transition to SABRS.

The Naval Audit Service is currently conducting an audit of the Marine Corps financial data reported for OFS with an expected completion date of October 17, 2017. During this audit, the Naval Audit Service will verify whether SABRS can produce a universe of Marine Corps OCO transactions supporting the CoW report. Therefore, we will close this recommendation when: 1) the Naval Audit Service verifies SABRS' ability to produce a universe of Marine Corps OCO transactions; 2) we verify that the Navy can produce a universe of Navy OCO transactions from SABRS; and 3) we verify that the Navy and Fleet SOPs clearly identify the methodology for calculating operational costs allocated to OCOs. To complete this verification, the Navy will need to provide its interim procedures for identifying OCO transactions, the Naval Audit Service's audit report, a universe of Navy OCO transactions from SABRS, and the final SOPs which should describe the reengineered processes. We expect the audit report during first quarter FY 2018 and receipt of the initial update to the SOPs no later than June 30, 2017.

Finding B

Navy's OFS Cost Reporting Was Inaccurate

Our review of the Navy's internal controls identified significant inaccuracies within the Navy's first quarter FY 2016 CoW reports. The Navy did not have adequate CoW reporting processes to ensure accurate reporting of OFS costs.

Navy personnel inaccurately reported \$20.1 million in obligations and \$85.4 million in disbursements in their first quarter CoW report submissions. This occurred because Navy personnel did not have adequate standard operating procedures (SOPs) for receiving, reviewing, and reporting obligations and disbursements for the CoW report, as required by DoD and Federal guidance.¹⁹

Navy personnel also did not limit cost reporting to incremental costs in accordance with Public Law 113-235, as implemented in DoD FMR volume 12, chapter 23. This occurred because OASN/FMB did not include the requirement to only report incremental costs in its implementing guidance.

As a result, inadequate SOPs contributed to additional misstated costs and affected the reliability of the CoW reports. Furthermore, the Navy may have significantly misstated the amounts reported in the CoW report by submitting more than the incremental costs for the ship operations (operations)²⁰ and depot-level maintenance²¹ cost categories.

Inaccuracies Reported in First Quarter FY 2016

The Navy did not have adequate CoW reporting processes to ensure accurate reporting of first quarter FY 2016 OFS costs. Specifically, Navy personnel inaccurately reported obligations, disbursements, and incremental costs in its first quarter FY 2016 CoW report submissions.

¹⁹ DoD FMR volume 12, chapter 23; GAO "Standards for Internal Control in the Federal Government," September 2014; and Office of Management and Budget Circular A-123, "Management's Responsibility for Internal Control," December 21, 2004.

²⁰ The operations cost category captures the incremental costs spent by the Navy on material and services used to support its units during OCOs.

²¹ The depot-level maintenance cost category captures the costs to overhaul, clean, inspect, and maintain equipment at the conclusion of an OCO or unit deployment.

Inaccurate Costs Reported for the CoW Reports

The Navy inaccurately reported \$20.1 million in obligations and \$85.4 million in disbursements in its first quarter FY 2016 CoW report submissions.²² Specifically, the Navy inaccurately reported:

- COMPACFLT cost transfer disbursement amounts of \$69.8 million,
- COMPACFLT submissions of \$20.1 million in obligations and \$4.1 million in disbursements, and
- USFFC submissions of \$11.5 million in disbursements.

COMPACFLT Inaccurate Reporting

COMPACFLT BSO and support activities did not accurately report \$69.8 million in depot-level maintenance costs. In accordance with the OASN/FMB guidance, the BSOs and support activities complete cost transfers in the accounting systems to track OCO costs by contingency code.²³ However, COMPACFLT BSO and support-activity personnel did not accurately report the support-activity disbursement amounts for depot-level maintenance costs in the CoW reports for first quarter FY 2016.

For example, support-activity personnel completed a cost transfer but did not report \$43.3 million in depot-level maintenance disbursements. In three other instances, support-activity personnel did not report

\$14.3 million in disbursements by not completing cost transfers to the account used to report the costs.

In other instances, BSO personnel did not include a support activity's \$7.8 million cost transfer in their monthly submission and incorrectly reported \$4.4 million of disbursements in an improper cost category. As a result, COMPACFLT BSO personnel did not report \$69.8 million in disbursements for depot-level maintenance in the first quarter FY 2016 CoW reports.

COMPACFLT BSO personnel did not report \$69.8 million in disbursements for depot-level maintenance in the first quarter FY 2016 CoW reports.

²² Amounts are absolute value, which means negative signs are ignored and all values are treated as positive.

²³ Department of Navy "Contingency Reporting Guidance," September 29, 2008, requires Navy personnel to complete cost transfers in instances where costs cannot be recorded on a transactional basis.

In addition, COMPACFLT support activities did not accurately report \$20.1 million in obligations and \$4.1 million in disbursements.

COMPACFLT support-activity personnel from NECCPAC incorrectly captured \$7.4 million of commitments and reported them as obligations in their CoW report submission for first quarter FY 2016.

COMPACFLT support-activity personnel from Navy Expeditionary Combat Command–Pacific (NECCPAC) incorrectly captured \$7.4 million of commitments and reported them as obligations in their CoW report submission for first quarter FY 2016.²⁴ According to the DoD FMR, Components are required to report the obligation of funds used to cover the costs of the OCOs.²⁵ NECCPAC personnel stated that they identified the amount of monthly OCO obligations they needed to submit for the CoW report by searching the accounting system. However, NECCPAC personnel captured commitment amounts in addition to obligation amounts.

Furthermore, NECCPAC personnel inaccurately reported first quarter FY 2016 obligations by \$12.7 million and disbursements by \$4.1 million. In November 2015, NECCPAC personnel used an incorrect beginning balance when calculating the amount to report for monthly obligations and disbursements, and in December 2015, the same personnel captured and reported cumulative costs instead of monthly costs.²⁶

USFFC Inaccurate Reporting

USFFC BSO personnel did not accurately report \$11.5 million in disbursements during first quarter FY 2016. During the November and December reporting periods, USFFC BSO personnel did not report \$11.5 million in disbursements and the OASN/FMB Operations & Maintenance (O&M) analyst did not identify this error during his review of the BSO's submissions.²⁷ The DoD FMR requires Navy personnel to perform monthly reviews and validate that the reported costs are an accurate and fair representation of Navy's ongoing activities.²⁸ However, for October, November, and December 2015, the support-activity personnel reported disbursements

USFFC BSO personnel did not accurately report \$11.5 million in disbursements during first quarter FY 2016.

²⁴ According to DoD FMR volume 3, chapter 15, "Receipt and Distribution of Budgetary Resources – Execution Level," section 150203, "Commitments," a commitment is a reservation of funds, whereas obligations occur after the commitment and are the amounts of placed orders, awarded contracts, and services received that would require payment.

²⁵ DoD FMR volume 12, chapter 23, "Contingency Operations," section 231403, "Determining Cost."

²⁶ Support-activity personnel calculated the monthly obligation and disbursement amounts to submit into the CoW report by subtracting the previous month's year-to-date balance from the current month's year-to-date balance.

²⁷ The O&M appropriation finances the day-to-day costs of Navy operating forces.

²⁸ DoD FMR volume 12, chapter 23.

that were less than obligations by \$2.9 million, \$7.0 million, and \$4.5 million, respectively.²⁹ Although the OASN/FMB O&M analyst identified the \$2.9 million error and corrected it by reporting obligations equal to disbursements in CORAS for October 2015, the analyst did not identify the November and December errors.

Inadequate SOPs

The Navy did not accurately report OFS costs for first quarter FY 2016 because it did not have adequate SOPs for the receipt, review, and reporting processes for CoW reporting. The BSOs and their support activities had different processes for reporting OCO costs to OASN/FMB.

Of the 30 reporting processes reviewed, 14 processes did not have SOPs and none of the 16 SOPs reviewed contained all of the required information.

Of the 30 reporting processes reviewed, 14 processes did not have SOPs and none of the 16 SOPs reviewed contained all of the required information. The Government Accountability Office (GAO) internal control standards establish that Navy management should document processes and transactions in a manner that allows documentation to be readily available for examination. The DoD FMR requires that each Component develop and publish an SOP that documents its receipt, review, and reporting of OCO costs.³⁰ Appendix D shows the activities that provided SOPs and the criteria used to assess the adequacy of the SOPs received.

Neither OASN/FMB nor its BSOs and support activities developed SOPs that fully documented the receipt, review, and reporting processes for CoW reporting. OASN/FMB personnel are responsible for compiling the monthly BSO submissions for upload in CORAS and validating the accuracy of the information in the CoW reports. Navy BSOs are responsible for submitting OFS costs to OASN/FMB personnel for inclusion in the CoW report. Navy support-activity personnel are responsible for executing and recording OFS obligations and disbursements in the accounting systems. Establishing effective internal controls, such as SOPs, is essential to ensuring accurate and reliable reporting of OFS costs in the CoW report.

²⁹ The Navy incorporates all costs required to fly and maintain aircraft when calculating program costs related to flying hours. According to OASN/FMB O&M analyst, the obligation amount allocated to the OCO for flying hours does not have a corresponding disbursement; therefore, the obligations and disbursements reported for the CoW report should match.

³⁰ DoD FMR volume 12, chapter 23, "Contingency Operations," section 230904, "Guidance/Instructions."

OASN/FMB Procedures Not Adequately Documented

The OASN/FMB O&M and procurement analysts did not have SOPs that adequately documented the CoW reporting processes. When requested, the OASN/FMB O&M analyst could not provide an SOP documenting the business processes used to compile and submit O&M information to CORAS for the CoW report. In addition, the OASN/FMB procurement analyst provided a desktop guide that documented the business processes used to submit procurement information for the CoW report; however, the desktop guide did not contain all required attributes of an SOP, as described in Appendix D.



The OASN/FMB O&M analyst could not provide an SOP documenting the business processes used to compile and submit O&M information to CORAS for the CoW report.

BSOs and Support-Activity Procedures Not Adequately Documented

Of the 28 BSO and support-activity processes reviewed, 13 processes did not have SOPs, and of the 15 SOPs reviewed, none contained all of the required information.³¹ NAVAIR and NAVSEA BSO personnel did not have SOPs for the CoW receipt, review, and reporting processes. Although two of the seven NAVSEA support activities provided SOPs, the SOPs did not adequately document the required receipt, review, and reporting processes for obligations and disbursements reported in the CoW report. NAVAIR personnel stated that they did not rely on submissions from the support activities for CoW reporting because NAVAIR personnel obtain the information directly from the Navy ERP accounting system.

USFFC BSO personnel had an SOP for the receipt, review, and reporting of OFS O&M costs, but it did not contain all of the required attributes. Furthermore, BSO personnel stated that they did not have an SOP for reporting procurement costs. Although three of the five USFFC support activities provided SOPs, they did not adequately document the required receipt, review, and reporting processes for obligations and disbursements reported in the CoW report.

COMPACFLT BSO personnel had an SOP, but it did not adequately document the required receipt, review, and reporting processes for obligations and disbursements reported in the CoW report. Although all eight COMPACFLT support activities provided SOPs, the SOPs did not adequately document the required receipt, review, and reporting processes for obligations and disbursements reported in the CoW report.

³¹ Of the 30 OCO processes reviewed, 2 were OASN/FMB. The remaining 28 OCO processes reviewed included 8 processes at the BSOs and 20 processes at the related support activities.

To ensure the accuracy of the CoW reporting, all Components and their support activities should establish effective internal controls by maintaining current SOPs.

To ensure the accuracy of the CoW reporting, all Components and their support activities should establish effective internal controls by maintaining current SOPs. The OASN/FMB should develop and implement SOPs, as required in the DoD FMR, that include, at a minimum, procedures for the receipt, review, and reporting of obligations and disbursements for OFS³² and should require the Navy budget submitting offices and support activities with OFS responsibilities to develop SOPs, when necessary, that include activity-specific processes to ensure costs are accurately reflected in the CoW reports.

Incremental Costs Not Reported as Required

Navy personnel did not limit cost reporting to incremental costs in the first quarter FY 2016 CoW reports. Specifically, OASN/FMB personnel stated that they reported more than incremental costs in their submission of OFS costs for the CoW report. The DoD FMR defines incremental costs as additional costs to the DoD Component appropriations that would not have been incurred if the contingency operation had not been supported. Public Law 113-235 requires the DoD to report incremental contingency operation costs for OFS on a monthly basis in the CoW report. The DoD FMR further requires that costs reported for OCOs be limited to the incremental costs of the operation and that baseline costs, which are the continuing annual costs of DoD operations that would be incurred whether or not a contingency operation took place, are not reported.³³

OASN/FMB personnel stated that they reported more than incremental costs in their submission of OFS costs for the CoW report.

Deputy Comptroller (Program/Budget), OUSD(C) personnel stated that since 2009, the Office of Management and Budget and the DoD have developed the criteria for OCO funding requests. These criteria are the basis for meeting the OCO reporting requirements. From 2001 through 2009, the DoD relied on supplemental funding to appropriate funds for the global war on terror. Currently, the annual appropriations act authorizes OCO and base funding at the appropriation level; therefore, OCO funding does not have a separate fund balance. According to OASN/FMB personnel, if the Navy identified and reported only incremental costs, the amounts reported in the CoW report for operations and depot-level maintenance would be substantially less than the currently reported amounts.

³² DoD FMR volume 12, chapter 23.

³³ DoD FMR volume 12, chapter 23.

USFFC and COMPACFLT personnel did not have adequate processes to accurately identify their portion of the incremental costs to include in the CoW report.

USFFC and COMPACFLT personnel did not have adequate processes to accurately identify their portion of the incremental costs to include in the CoW report. Instead, USFFC and COMPACFLT personnel established different percentages of their costs as “OCO eligible.”³⁴ USFFC and COMPACFLT personnel applied the “OCO-eligible” percentage to the total funds Navy had spent to maintain the USFFC and COMPACFLT vessels. However, USFFC and COMPACFLT personnel did not use the same methodology when reporting their “OCO-eligible” costs in the first quarter reports. Specifically, USFFC BSO personnel stated that they reported 20 percent of the total depot-level maintenance costs to the OCO-eligible vessels during the reporting period, while COMPACFLT reported 75 percent of OCO-eligible vessel costs. USFFC based its methodology on the FY 2016 Program Objectives Memorandum³⁵ and COMPACFLT based it on the FY 2016 Fleet Maintenance guidance.³⁶

Because of these differing methodologies, the Navy submitted substantially different dollar amounts for depot-level maintenance, between the Fleet Commands, for inclusion in the CoW report.

Inadequate Incremental Cost Guidance

Navy personnel did not report incremental costs in accordance with Public Law 113-235 because OASN/FMB personnel did not issue updated guidance to their BSOs and support activities to identify and report incremental costs for the operations and depot-level maintenance cost categories. OASN/FMB personnel stated that they would not update the guidance to require reporting incremental costs for operations and depot-level maintenance unless directed by Deputy Comptroller (Program/Budget), OUSD(C) personnel to do so. To ensure consistent and accurate reporting of incremental costs in the CoW reports, as required by public law, OASN/FMB personnel should develop and issue updated guidance that, at a minimum, identifies a standard method of allocating incremental costs for operations and depot-level maintenance.

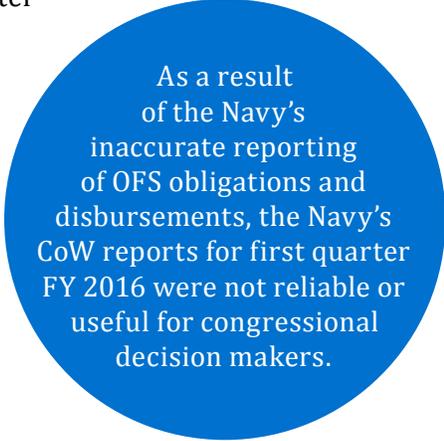
³⁴ OCO-eligible costs are those associated with Navy vessels that have been identified for deployment in support of an OCO.

³⁵ A Program Objectives Memorandum is an annual memorandum that displays the resource allocation decisions of the Military Departments in response to and in accordance with the Secretary of Defense’s fiscal guidance.

³⁶ “COMPACFLT Fleet Maintenance Division OCO Reporting Guidance,” October 27, 2015.

CoW Reports Were Unreliable

As a result of the Navy's inaccurate reporting of OFS obligations and disbursements, the Navy's CoW reports for first quarter FY 2016 were not reliable or useful for congressional decision makers. Therefore, OASN/FMB personnel should implement adequate SOPs that address the receipt, review, and reporting of complete and accurate OFS costs in the CoW reports. Until OASN/FMB personnel require the development and implementation of adequate SOPs for all levels of the Navy that perform CoW reporting, the data in the CoW reports will likely continue to be unreliable. In addition, until the OASN/FMB issues guidance ensuring a standard method for allocating incremental costs, the Navy will remain out of compliance with the CoW reporting requirements.



As a result of the Navy's inaccurate reporting of OFS obligations and disbursements, the Navy's CoW reports for first quarter FY 2016 were not reliable or useful for congressional decision makers.

Management Actions Taken

During the audit, we briefed each BSO and support activity on our observations during site visits. In response, personnel at COMPACFLT and USFFC took the following corrective actions.

COMPACFLT Personnel. Southwest Regional Maintenance Center personnel completed cost transfers in July 2016 to record disbursements for first quarter FY 2016. Pearl Harbor Naval Shipyard personnel completed cost transfers in August 2016 to record disbursements for first quarter FY 2016. In July 2016, COMPACFLT BSO personnel issued clarifying guidance regarding obligation reporting, and NECCPAC personnel subsequently modified their system search to capture obligations by excluding commitments. NECCPAC personnel also corrected their November and December inaccurately reported obligations and disbursements by balancing their June submission to the obligations and disbursements recorded in the accounting system.

USFFC Personnel. OASN/FMB personnel corrected, for the USFFC BSO personnel, the Operations and Temporary Duty Accounts by ensuring the year-to-date disbursements matched the year-to-date obligations, as reflected in the USFFC June 2016 CoW submission.

Recommendations, Management Comments, and Our Response

Recommendation B.1

We recommend that the Deputy Assistant Secretary for Budget in coordination with Navy budget submitting offices and support activities, develop and implement standard operating procedures that cover end-to-end Cost of War reporting processes. These standard operating procedures should include, at a minimum, procedures for the receipt, review, and reporting of obligations and disbursements for Operation Freedom’s Sentinel to ensure costs are accurately reflected in the Cost of War reports.

Deputy Assistant Secretary for Budget

The Associate Director for the Office of Budget, responding for the Deputy Assistant Secretary for Budget, agreed, stating that an updated SOP is required. The Associate Director explained that the Navy has already started updating the SOPs and existing guidance for use by OASN/FMB and the various Navy BSOs. The OASN/FMB and BSOs will use the SOP, which will document the methodology for determining incremental costs and processes for reporting and reviewing costs included in the CoW report. The estimated completion date for initial updates to the SOPs and OASN/FMB guidance is June 30, 2017.

Our Response

Comments from the Associate Director addressed the recommendation; therefore, the recommendation is resolved. We will close this recommendation once we receive a copy of the updated SOP and verify that it includes, at a minimum, procedures for the receipt, review, and reporting of obligations and disbursements for the Cost of War reports. We expect receipt of the new SOP no later than June 30, 2017.

Recommendation B.2

We recommend that the Deputy Assistant Secretary for Budget develop and issue updated guidance that requires Navy activities to, at a minimum, use a consistent methodology for allocating incremental operations and depot-level maintenance costs, as required by Public Law 113-235, “The Consolidated and Further Continuing Appropriations Act, 2015,” and defined by DoD Regulation 7000.14-R, “DoD Financial Management Regulation,” volume 12, chapter 23.

Deputy Assistant Secretary for Budget

The Associate Director for the Office of Budget, responding for the Deputy Assistant Secretary for Budget, agreed, stating that the Deputy Assistant Secretary for Budget will develop revised guidance for determining and reporting incremental costs. The revised guidance will include a consistent methodology between the Fleets for calculating and documenting operational costs allocated to OCOs. In addition, OASN/FMB has started discussions with OUSD(C) on how this information is reporting in the CoW report. The estimated completion date for initial updates to the guidance is June 30, 2017.

Our Response

Comments from the Associate Director addressed the recommendation; therefore, the recommendation is resolved. We will close this recommendation once we receive the final revised guidance and verify that it includes, at a minimum, a consistent methodology for allocating and documenting operational OCO costs.

Appendix A

Scope and Methodology

We conducted this performance audit from May 2016 through January 2017 in accordance with generally accepted government auditing standards. The Navy could not provide a universe of OCO transactions supporting first quarter FY 2016 CoW reports. Although the Navy could not provide cost information for its obligations and disbursements at the transaction level, we determined the accuracy of obligations and disbursements reported in the CoW report by reviewing OASN/FMB, BSO, and support-activity submissions.

According to generally accepted government auditing standards, when limitations occur and the evidence cannot be assessed, the audit objectives should be redefined to limit the scope or eliminate the need to use the evidence. Therefore, we changed the scope and methodology of the audit to accommodate the limitations caused by the Navy's inability to produce a complete universe of transactions. See Finding A for a discussion of the Navy's inability to provide transactions supporting the obligations and disbursements reported in the first quarter FY 2016 CoW reports. Although we could not test the accuracy of the transactions recorded in the source accounting systems, we validated the accuracy of the cost data reported in the CoW reports by comparing the data in related systems and researching all variances. In addition, we assessed the internal controls in place for the OCO reporting process at OASN/FMB, and BSOs (NAVAIR, NAVSEA, USFFC, and COMPACFLT), and support activities at those BSOs.

We met with Deputy Comptroller (Program/Budget), OUSD(C); Navy; and Defense Finance and Accounting Service personnel to understand the processes and assess internal controls for obtaining and reviewing Navy OFS costs, and for submitting the data to CORAS for the CoW reports. We interviewed:

- Deputy Comptroller (Program/Budget), OUSD(C) personnel to understand their processes and controls used when reviewing the cost data submitted by OASN/FMB;
- OASN/FMB personnel to understand their processes and internal controls in place for receiving, reviewing, and reporting OFS cost data into CORAS;
- Navy personnel at NAVSEA, NAVAIR, USFFC, COMPACFLT Naval Base San Diego, and COMPACFLT Naval Station Pearl Harbor to understand the internal controls in place for receiving, reviewing, and reporting OFS costs at BSO and support-activity levels; and

- OASN/FMO-2, OASN/FMB, and Defense Finance and Accounting Service-Cleveland personnel to understand the issues preventing the identification of an OCO transaction universe and the potential changes that could enable the identification of an OCO transaction universe.

We reviewed Deputy Comptroller (Program/Budget), OUSD(C), DoD FMR, and Navy policy and guidance to determine whether Navy personnel complied with applicable guidance for reporting execution of OFS obligations and disbursements in CORAS.

Use of Computer-Processed Data

We used first quarter FY 2016 OCO data from STARS-FL, STARS-HCM, Navy ERP, the Justification Management System,³⁷ the Secured Enterprise Access Tool,³⁸ and CORAS to determine whether OFS costs reported in the CoW report were accurate and complete. We reviewed internal control documentation related to STARS-FL, STARS-HCM, Navy ERP, and CORAS, and validated the reliability of the data by comparing OFS data from support-activity levels to the same month's data within the various systems involved in the reporting process and identifying the cause of any variances. Specifically, we compared:

- the OFS costs reported by the support activities, sent by e-mail and the Secured Enterprise Access Tool, to the amounts reported by the BSOs, sent by e-mail and the Justification Management System;
- the BSO obligation and disbursement data, sent by e-mail and the Justification Management System, to CORAS data; and
- total OFS amounts in CORAS to the CoW report totals.

Use of Technical Assistance

During the audit, we did not receive technical assistance.

³⁷ The Justification Management System is a data repository used to capture BSO submissions.

³⁸ The Secured Enterprise Access Tool is a web-based tool used to capture support-activity submissions that authenticate users.

Appendix B

Prior Coverage

Since 2010, the GAO and the DoD OIG issued four reports discussing OCO cost reporting. Unrestricted GAO reports can be accessed at <http://www.gao.gov>. Unrestricted DoD OIG reports can be accessed at <http://www.dodig.mil/pubs/index.cfm>.

GAO

Report No. GAO-10-562R, "Opportunities to Improve Controls Over Department of Defense's Overseas Contingency Operations Cost Reporting," May 27, 2010

The Military Services that executed FY 2009 OCO funding did not have detailed written procedures for reviewing the reliability of OCO reported costs. In addition, the GAO identified deficiencies in the DoD FMR's internal control policy on budgeting and accounting for contingency operations. For example, the policy did not fully explain validation requirements and did not require Services to retain documentation for internal control. These deficiencies increase the risk that these internal controls will not be performed. Furthermore, Congress does not have assurances that the monthly OCO reports accurately represent costs because the DoD consolidates prior period corrections with current month activity.

DoD OIG

Report No. DODIG-2016-102, "Additional Controls Needed to Issue Reliable DoD Cost of War Reports That Accurately Reflect the Status of Air Force Operation Inherent Resolve Funds," June 23, 2016

The Deputy Assistant Secretary for Budget, Office of the Assistant Secretary of the Air Force Financial Management and Comptroller, inaccurately represented Air Force Operation Inherent Resolve costs in the third quarter FY 2015 CoW reports by underreporting \$237.9 million in obligations and \$209.9 million in disbursements. Deputy Comptroller (Program/Budget), OUSD(C), personnel did not issue the FY 2015 CoW reports within the deadline required by public law. As a result, the Deputy Comptroller (Program/Budget), OUSD(C) personnel issued unreliable and outdated CoW reports, diminishing the relevance of the information provided to the GAO and Congress.

Report No. DODIG-2016-014, "Independent Auditor's Report on the Department of the Navy General Fund FY 2015 and FY 2014 Basic Financial Statements," November 16, 2015

Management acknowledged that previously identified material weaknesses continued to exist. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Department of the Navy General Fund financial statements will not be prevented, or detected and corrected on a timely basis.

Report No. D-2011-090, "Cost of War Data for Marine Corps Contingency Operations Were Not Reliable," July 22, 2011

Marine Corps officials did not always support or accurately report FY 2008 OCO costs. The DoD OIG projected that Marine Corps officials could not provide sufficient documentation to support 86 transactions, valued at approximately \$1.82 billion. Furthermore, the DoD OIG also projected that Marine Corps officials did not accurately report approximately \$58.0 million under the correct operation or cost category. As a result, the DoD provided unreliable data to Congress and other decision-makers.

Appendix C

Roles and Responsibilities for Cost Reporting

Deputy Comptroller (Program/Budget), OUSD(C)

Deputy Comptroller (Program/Budget), OUSD(C) personnel are responsible for the overall financial policy for contingency operations. They also provide guidance that includes the definition and application of reporting incremental costs to ensure that the CoW report includes reliable financial information. Finally, they publish the CoW report for Congress based on the OCO costs submitted from the Navy into CORAS.

Navy Financial Management and Budget (OASN/FMB)

OASN/FMB personnel are responsible for submitting all Navy OCO monthly execution amounts for appropriations, budget activities, and budget line items using a cost breakdown structure³⁹ into CORAS. To do this, the OASN/FMB O&M analyst downloads and compiles O&M submission files from the Justification Management System and performs quality assurance checks for anomalies.

The OASN/FMB procurement analyst compiles the BSOs' e-mail submissions and sends the O&M analyst a spreadsheet with the procurement obligation and disbursement amounts. The OASN/FMB O&M analyst submits both O&M and procurement costs, compiled from the BSO submissions, directly into CORAS.

Navy Financial Operations, Accounting and Financial Reporting Division (OASN/FMO-2)

OASN/FMO-2 personnel are responsible for managing financial data and processes to produce accurate, reliable, and timely Department of the Navy financial reports.

Budget Submitting Offices (BSOs)

Navy BSOs are responsible for submitting OFS costs to OASN/FMB for inclusion in the CoW report. The BSOs of the NAVSEA and NAVAIR pull obligations and disbursements directly from the source accounting system, Navy ERP. NAVSEA uses the information pulled from the accounting system to verify support-activity submissions. NAVAIR relies on the data pulled from the Navy ERP for its submission to the OASN/FMB. The USFFC and COMPACFLT compile costs from multiple support activities and prepare them for submission to OASN/FMB. On a monthly basis, the BSOs submit the OFS O&M obligations and disbursements

³⁹ The cost breakdown is a hierarchical system for subdividing a program into various components, such as functions and sub-functions, to provide for more effective management and control of the program, especially cost control.

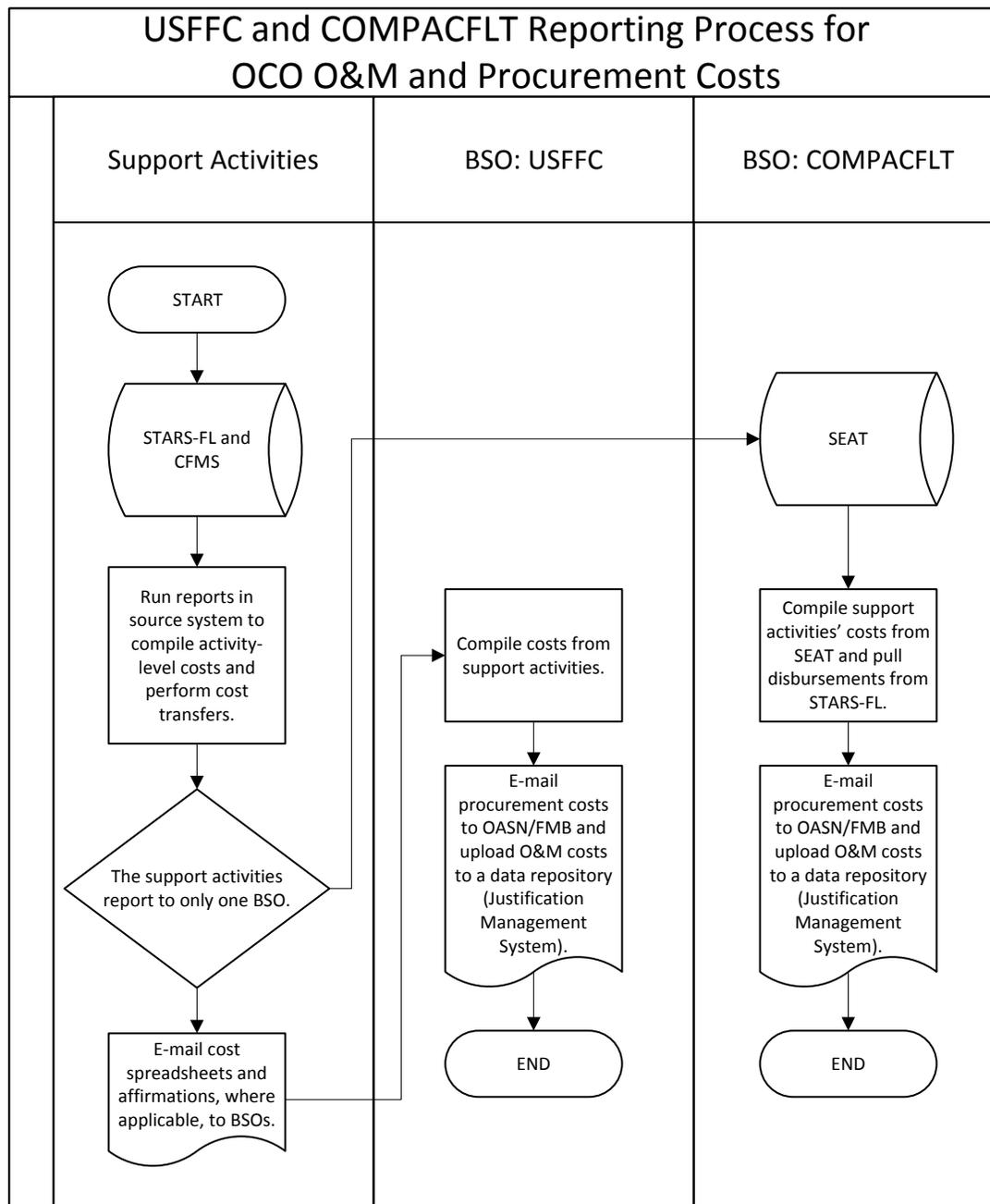
through the Justification Management System to OASN/FMB personnel. If BSOs record procurement costs for OFS, they e-mail monthly procurement cost spreadsheets to the OASN/FMB procurement analyst for compilation.

Support-Activities

Navy support-activity personnel are responsible for reporting the execution of OFS obligations and disbursements. They process OFS obligations and disbursements into the source accounting systems—STARS-FL, STARS-HCM, Navy ERP, and SABRS.⁴⁰ Navy support-activity personnel are responsible for the accurate reporting of cost data to the BSOs. Support activities that use STARS-FL and the Command Financial Management System capture obligations and disbursements from various sources in the Navy including flying hour budget expense reports, ship expense reports, and personnel cost reports. On a monthly basis, the support activities either e-mail their respective BSOs the compiled OCO costs for the support activity or submit their costs into the Secured Enterprise Access Tool. NAVAIR support activities do not provide submissions to the BSO because the BSO can extract the information directly from the source systems.

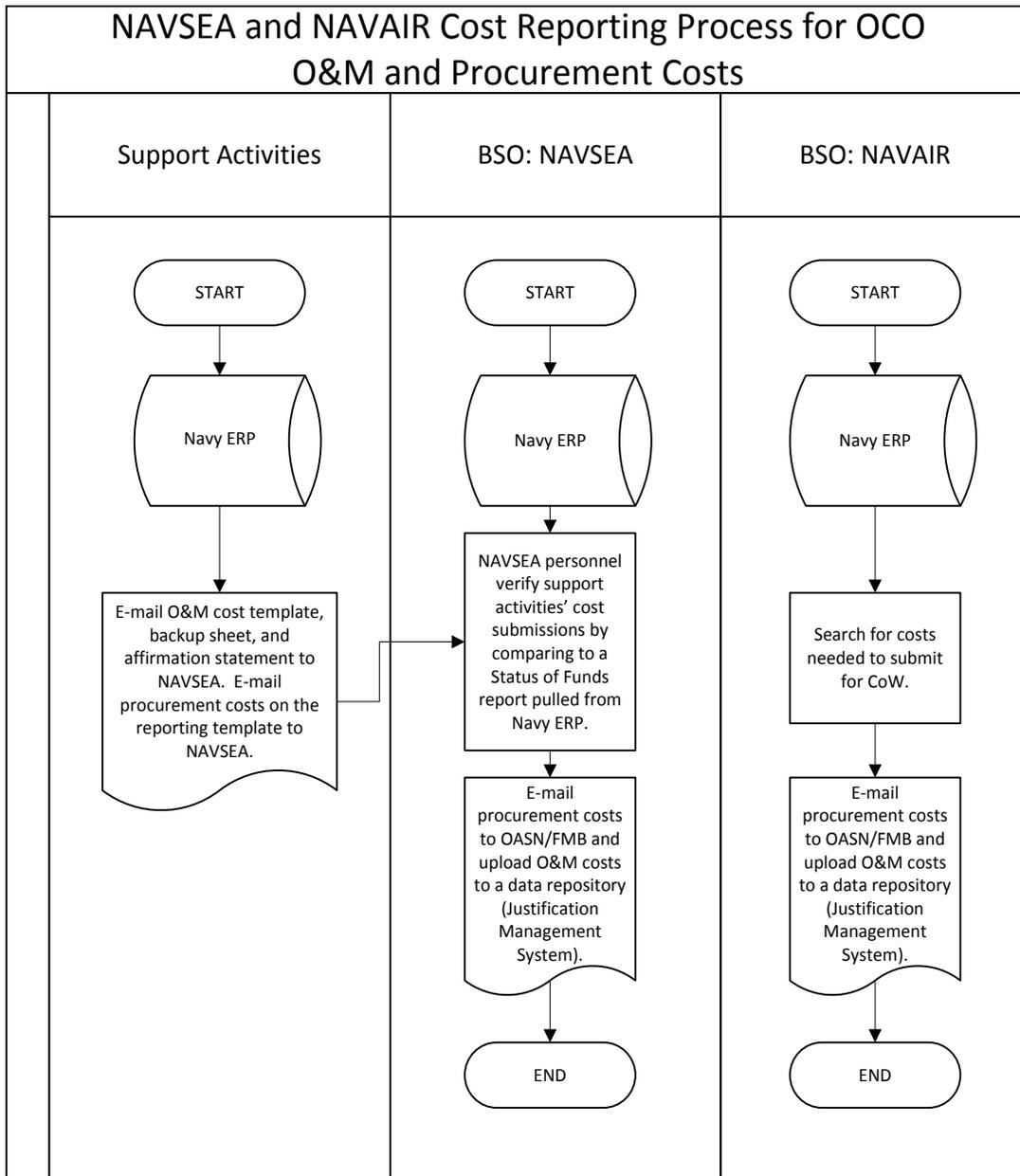
⁴⁰ As of October 1, 2015, the Navy transitioned one BSO, representing less than 1 percent of the total obligations the Navy reported for OFS in the CoW report during first quarter FY 2016, from STARS-FL to SABRS; therefore, we did not include SABRS data in our review.

Figure 1. Roles and Responsibilities for CoW Reporting for USFFC and COMPACFLT



Source: Information from site visits and discussions of reporting processes with USFFC and COMPACFLT.

Figure 2. Roles and Responsibilities for CoW Reporting for NAVSEA and NAVAIR



Source: Information from site visits and discussions of reporting processes with NAVSEA and NAVAIR.

Appendix D

SOP Review Methodology and Results

We interviewed personnel from the OASN/FMB, the Navy BSOs, and support activities to determine whether the activity had an SOP. We also reviewed the SOPs provided by these personnel to determine whether the SOP met the requirements of the DoD FMR and the GAO “Standards for Internal Control in the Federal Government.” Specifically, we requested SOPs for the 30 CoW reporting processes reviewed at the 25 Navy offices, which included OASN/FMB and 4 BSOs (NAVAIR, NAVSEA, USFFC, and COMPACFLT), and support activities visited. Multiple CoW reporting processes were reviewed at the locations visited. Navy personnel provided SOPs for 16 of the 30 processes reviewed and none of the supplied SOPs had all attributes required by the DoD FMR and the GAO. Table 2 illustrates the Navy offices and support activities that provided SOPs and Table 3 displays the results of the analysis of SOP attributes. The numbers in the top row of Table 3 correlate with the numbers in Table 4 for each required attribute.

Table 2. Status of SOPs for Navy Offices and Support Activities

Component	Navy Offices and Supporting Activities	Provided SOP	
OASN/FMB	OASN/FMB - Operations and Maintenance		No
	OASN/FMB - Investment	Yes	
NAVAIR BSO:	NAVAIR - Operation and Maintenance		No
	NAVAIR - Procurement of Ammunition, Navy/Marine Corps		No
	NAVAIR - Aircraft Procurement, Navy		No
NAVSEA BSO:	NAVSEA - Investment		No
	NAVSEA - Operations and Maintenance		No
NAVSEA Supporting Activities:	SEA 05H	Yes	
	Naval Ordnance Safety and Security Activity	Yes	
	Integrated Warfare System 3C		No
	Program Management Office at NAVSEA 340		No
	SEA 06/Program Management Office at 408		No
	SEA 07		No
USFFC BSO:	Program Management Office at NAVSEA 325		No
	USFFC - Operations and Maintenance	Yes	
	USFFC - Investment		No
USFFC Supporting Activities:	Commander, Naval Expeditionary Combat Command	Yes	

Table 2. Status of SOPs for Navy Offices and Support Activities (cont'd)

Component	Navy Offices and Supporting Activities	Provided SOP	
	Commander, Submarine Atlantic	Yes	
	Commander, Naval Surface Atlantic	Yes	
	Commander, Naval Air Force Atlantic		No
	Norfolk Navy Shipyard		No
COMPACFLT BSO:	COMPACFLT - Operations and Maintenance	Yes	
COMPACFLT Supporting Activities:	COMPACFLT Fleet Maintenance Division	Yes	
	Naval Expeditionary Combat Command Pacific	Yes	
	Navy Ammunitions Command East Asia Division	Yes	
	Pearl Harbor Naval Shipyard	Yes	
	Commander, Submarine Pacific	Yes	
	Southwest Regional Maintenance Center	Yes	
	Commander, Naval Surface Force Pacific	Yes	
	Commander, Naval Air Pacific	Yes	
	Total	16	14

Source: DoD Office of Inspector General.

Table 3. Analysis of SOP Attributes

Activity Reviewed	1. Process Documentation	2. Data Source	3. Cost Criteria	4. CBS Methodology	5. Review and Validation	6. Variance Analysis	7. POC	8. Change Tracking	9. Cost Submission	10. Affirmations	11. Current
OASN/FMB Procurement	Yes	Yes	N/A	N/A	No	No	No	No	No	No	Yes
USFFC O&M	Yes	Yes	Yes	Yes	No	N/A	No	No	Yes	N/A	Yes
COMPACFLT	Yes	Yes	No	No	Yes	N/A	No	No	Yes	N/A	Yes
CNAP	Yes	Yes	Yes	Yes	Yes	N/A	No	No	Yes	N/A	Yes
CNECC	Yes	Yes	Yes	Yes	No	N/A	No	No	No	N/A	No
CNSL	Yes	Yes	Yes	No	Yes	N/A	No	No	No	N/A	Yes
CNSP	Yes	Yes	Yes	Yes	Yes	N/A	No	No	Yes	N/A	Yes
CSL	Yes	Yes	Yes	No	No	N/A	No	No	No	N/A	No
CSP	Yes	No	Yes	Yes	No	N/A	No	No	Yes	N/A	Yes
COMPACFLT Fleet Maintenance Division	Yes	Yes	Yes	Yes	Yes	N/A	No	No	Yes	N/A	Yes
NECCPAC	Yes	Yes	Yes	Yes	Yes	N/A	No	No	Yes	N/A	Yes
NMC EAD	Yes	No	No	Yes	Yes	N/A	No	No	Yes	N/A	Yes
NOSSA	Yes	YES	No	No	No	N/A	No	No	No	N/A	Yes
PHNSY	Yes	Yes	Yes	No	Yes	N/A	No	No	No	N/A	Yes
SEA 05H	Yes	No	No	No	No	N/A	No	No	No	N/A	Yes
SWRMC	Yes	Yes	Yes	No	Yes	N/A	No	No	Yes	N/A	Yes

Source: SOPs provided by OASN/FMB, BSOs and support activities.

*n/a = not applicable

The legend is on the next page.

LEGEND

- CBS** Cost Breakdown Structure
- CNAP** Commander, Naval Air Pacific
- CNECC** Commander, Naval Expeditionary Combat Command
- CNSL** Commander, Naval Surface Atlantic
- CSL** Commander, Submarine Atlantic
- CSP** Commander, Submarine Pacific
- NECCPAC** Naval Expeditionary Combat Command Pacific
- NMC EAD** Navy Munitions Command East Asia Division
- NOSSA** Naval Ordnance Safety and Security Activity
- PHNSY** Pearl Harbor Naval Ship Yard
- SEA 05H** Force Level E3 & Spectrum Management Office
- SWRMC** Southwest Regional Maintenance Center

Table 4 explains the criteria used to evaluate the SOPs. The DoD FMR explains the requirements of an SOP for OCO reporting including those for receipt, review, and reporting of OCO costs. The GAO “Standards for Internal Control in the Federal Government” lays a foundation for internal control necessary to ensure accurate OCO reporting.

Table 4. Criteria for Evaluating SOPs

Attribute	Guidance	Requirement
1	DoD FMR Vol. 12, Ch. 23	Did activity provide documentation to its processes (SOP, desktop guide, other document for new employees)?
2	DoD FMR Vol. 12, Ch. 23 Requirements of SOP	Is each data source specifically identified (source accounting systems identified by name, in-house tracking and calculations identified, such as those for Air Force flying hours) along with supporting documentation?
3	GAO Green Book	Are the criteria used to identify OFS/OCO cost data in the source systems documented? Criteria may include query, design, contingency codes, dates, and others.
4	DoD FMR Vol. 12, Ch. 23 Requirements of SOP	Is methodology outlined for capturing costs by specific cost breakdown structure category?
5	DoD FMR Vol. 12, Ch. 23 Requirements of SOP	Are costs reviewed and validated monthly to determine that they are accurate and fair?
6	DoD FMR Vol. 12, Ch. 23 Requirements of SOP	Is methodology included for completing variance analysis in compliance with Deputy Comptroller instructions? (Note-only applies to FMB level; other levels are not required to complete variance analysis). Methodology should include documenting causes, factors, and related actions taken.
7	DoD FMR Vol. 12, Ch. 23 Requirements of SOP	Is there an identified point of contact who can explain changes in established variances?

Table 4. Criteria for Evaluating SOPs (cont'd)

Attribute	Guidance	Requirement
8	DoD FMR Vol. 6a, Ch. 2	Does SOP documentation cover the required aspects of a change tracking mechanism. For example, are changes supported, documented, tracked, approved, and corrective actions listed?
9	GAO Green Book	Does SOP documentation include specific instructions on submission of costs to the next level? For example, are methods of entry and submission included?
10	GAO Green Book	Does SOP documentation include specific instructions on completion of affirmation statement in compliance with annual Deputy Comptroller instructions? (OASN/FMB level only)
11	GAO Green Book	Are costs reviewed and validated, monthly, to determine that they are accurate and fair?

Source: DoD FMR volume 12, chapter 23, "Contingency Operations"; DoD FMR volume 6a, chapter 2, "Financial Roles and Responsibilities"; and the GAO Green Book, "Standards for Internal Control in the Federal Government."

Management Comments

Office of the Assistant Secretary of the Navy (Financial Management and Comptroller), Deputy Assistant Secretary of Financial Operations, Accounting and Financial Reporting Division, and Deputy Assistant Secretary for Budget



DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
(FINANCIAL MANAGEMENT AND COMPTROLLER)
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FEB 21 2017

MEMORANDUM FOR DEPUTY ASSISTANT INSPECTOR GENERAL

SUBJECT: Discussion Draft Report on "Navy Inaccurately Reported Operation Freedom's Sentinel Costs in the Cost of War Reports"

Reference: (a) DoDIG Discussion Draft Report Project D2016-D000JB-0150.000

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

I appreciate and encourage all efforts that assist the Department in improving financial reporting processes. I understand both of our staffs are engaged and I look forward to the final results of the audit.

My point of contact for this matter is [REDACTED] FMB11, at [REDACTED].

Mary K. Tompa
Associate Director
Office of Budget

Attachment:
As stated

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

Office of the Assistant Secretary of the Navy (Financial Management and Comptroller), Deputy Assistant Secretary of Financial Operations, Accounting and Financial Reporting Division, and Deputy Assistant Secretary for Budget (cont'd)

The following comments are submitted in response to DODIG Report No D2016-D000JB-0150.000 which reviewed the Cost of War for Operation Freedom's Sentinel processes within the Department of the Navy. The Department thanks the DoDIG staff for conducting this initial in-depth review of the Cost of War for Operation Freedom's Sentinel processes and for the work ongoing at four subordinate commands. The Department welcomes this effort as it assists in continuous process improvement.

Recommendation A

We recommend that the Deputy Assistant Secretary of Financial Operations, Accounting and Financial Reporting Division, and Deputy Assistant Secretary for Budget, in coordination with the Comptroller, Pacific Fleet Command, and the Comptroller, U.S. Fleet Forces Command, reengineer processes to identify the Navy's transactions for overseas contingency operations.

The Navy agrees that it is presently unable to provide a complete universe of OCO transactions due to limitations inherent in the STARS-FL accounting system, other accounting systems and feeder systems. As the DoD IG notes, Navy activities using STARS-FL utilize a contingency code located in the Job Order Number to identify contingency costs. These costs may be either individual financial events that are directly recorded in the accounting system at the document level ("discrete transactions") or composite cost allocations that are currently recorded via memorandum-entry cost transfers. However, due to system and interface limitations this contingency code field is not captured in DDRS and Navy cannot provide a comprehensive universe of OCO transactions. The Navy has assessed the feasibility of conducting system upgrades to the STARS-FL system and has determined this effort is not cost effective.

Based on the above discussion, the Navy believes the following Interim actions will address the recommendation:

- **For discrete transactions: Complete the transition to the SABRS accounting system.** *Initial Navy commands transitioned to the SABRS system for FY 2016 with additional commands scheduled in subsequent fiscal years, including both U.S. Fleet Forces Command and Commander, Pacific Fleet. Completion of this transition should allow Navy to provide a universe for the subset of discrete transactions that are recorded at the document level in the accounting system. Separately, OASN/FMB will collaborate with Marine Corps, Army and Air Force FM staffs to assess OCO transaction reporting that feeds the Cost of War report. The Navy will specifically coordinate with the Marine Corps to determine SABRS best practices that can be applied to the Navy's processes. **Completion date:** The tentative timeline for the Fleets migration is FY 2019.*
- **For composite costs: Identify via Navy and Fleet SOPs the mechanisms and procedures for accumulating composite cost allocations for non-transactional costs.** *The Navy conducts worldwide deployments for both peacetime and contingency purposes. Deployments that are supporting contingency operations are funded with budgeted, baseline funding, which is then supplemented with OCO funding for incremental costs due to cumulative increased operating tempo.*

Office of the Assistant Secretary of the Navy (Financial Management and Comptroller), Deputy Assistant Secretary of Financial Operations, Accounting and Financial Reporting Division, and Deputy Assistant Secretary for Budget (cont'd)

The Navy measures the cost of this operating tempo by aggregating total operational costs and then identifying an appropriate portion of the obligations as incremental cost to be reported as Cost of War. However, the Navy cannot now, nor does it anticipate being able in the future using STARS-FL or SABRS, identify all individual transactions (parts, fuel, etc) as either baseline or OCO costs. As such we do not foresee there being a universe of transactions in this subset of Navy's operating line items, including the Flight Operations, Ship Operations, and Ship Depot Maintenance programs that comprise the vast majority of total OCO O&M funding. Anecdotally, Fuel is an example where purchased fuel, once pumped into tanks onboard ship is unable to be managed at the transaction level when expended. Most of these centrally managed O&M efforts have similar limitations.

*As the DoD IG noted, in order to comply with the DoD FMR, the Navy commands with these types of costs calculate the appropriate amounts and then enter a series of memorandum-entry cost transfers into the accounting system. Because these transfers are net-zero they do not impact the financial statements. The Navy will assess whether housing these net-zero cost transfers in the local financial feeder systems will be more advantageous than entering them into the formal accounting systems that do not influence the monthly DFAS reports. To support the Cost of War reporting requirements, the Navy and activity SOPs will clearly identify the methodology for aggregating or calculating these types of cost. **Completion date:** An initial update to SOPs will be 30 June 2017.*

Recommendation B

Recommendation B.1 We recommend that the Deputy Assistant Secretary for Budget in coordination with Navy budget submitting offices and support activities, develop and implement standard operating procedures that cover end-to-end Cost of War reporting processes. These standard operating procedures should include, at a minimum, procedures for the receipt, review, and reporting of obligations and disbursements for Operation Freedom's Sentinel to ensure costs are accurately reflected in the Cost of War reports.

*The Deputy Assistant Secretary for Budget provided a Standard Operating Procedure (SOP) for review contrary to the draft report, but concurs that an update is required, and has already begun development of an updated SOP and updates to existing guidance, both for internal use by the OASN/FMB and by the various Navy budget submitting offices. These SOPs will specifically include instances identified by the DoD IG related to determination of incremental costs, reporting processes, errors in reported obligations and disbursements, and methodologies and responsibilities for data review. **Completion date:** An initial update to SOPs and FMB guidance will be 30 June 2017.*

Recommendation B.2 We recommend that the Deputy Assistant Secretary for Budget develop and issue updated guidance that requires Navy activities to, at a minimum, use a consistent methodology for allocating incremental operations and depot-level maintenance costs, as required by Public Law 113-235, "The Consolidated and Further Continuing Appropriations Act, 2015," and defined by DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 12, chapter 23.

Office of the Assistant Secretary of the Navy (Financial Management and Comptroller), Deputy Assistant Secretary of Financial Operations, Accounting and Financial Reporting Division, and Deputy Assistant Secretary for Budget (cont'd)

As noted in the response to recommendation B.1, the Deputy Assistant Secretary for Budget will develop revised guidance that specifically addresses methodology for determining and reporting incremental costs. The following issues will be addressed:

- *Implementing a common cost methodology between U.S. Fleet Forces Command and Commander, Pacific Fleet for allocating ship depot maintenance costs, as noted in Finding B1.*
- *Identify the methodology for aggregating or calculating non-transactional operational costs and the means of documenting them.*

*The DoD IG specifically noted that Navy Cost of War reports have included costs that, while meeting the Office of Management and Budget criteria for use of OCO funding, are not incremental costs. Discussions identified that a portion of these costs attributable to conducting the current contingency operations would have been required to support baseline operations in spite of contingency or normal operations. Upon further review OASN/FMB agrees there are concerns with including these costs in the Cost of War report and has started discussions with the OUSD(C). **Completion date:** An initial update to FMB guidance will be 30 June 2017.*

Acronyms and Abbreviations

BSO	Budget Submitting Office
COMPACFLT	Commander, U.S. Pacific Fleet
CORAS	Contingency Operation Reporting and Analysis Service
CoW	Cost of War
ERP	Enterprise Resource Planning
FMR	Financial Management Regulation
GAO	Government Accountability Office
NAVAIR	Naval Air Systems Command
NAVSEA	Naval Sea Systems Command
NECCPAC	Navy Expeditionary Combat Command Pacific
O&M	Operations and Maintenance
OASN/FMB	Office of the Assistant Secretary of the Navy (Financial Management and Comptroller), Deputy Assistant Secretary for Budget
OASN/FMO-2	Office of the Assistant Secretary of the Navy (Financial Management and Comptroller), Deputy Assistant Secretary of Financial Operations, Accounting and Financial Reporting Division
OCO	Overseas Contingency Operation
OFS	Operation Freedom's Sentinel
OUSD(C)	Office of the Under Secretary of Defense (Comptroller)
SABRS	Standard Accounting, Budgeting, and Reporting System
SOP	Standard Operating Procedures
STARS-FL	Standard Accounting and Reporting System—Field Level
STARS-HCM	Standard Accounting and Reporting System—Headquarters Claimant Module
USFFC	U.S. Fleet Forces Command

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