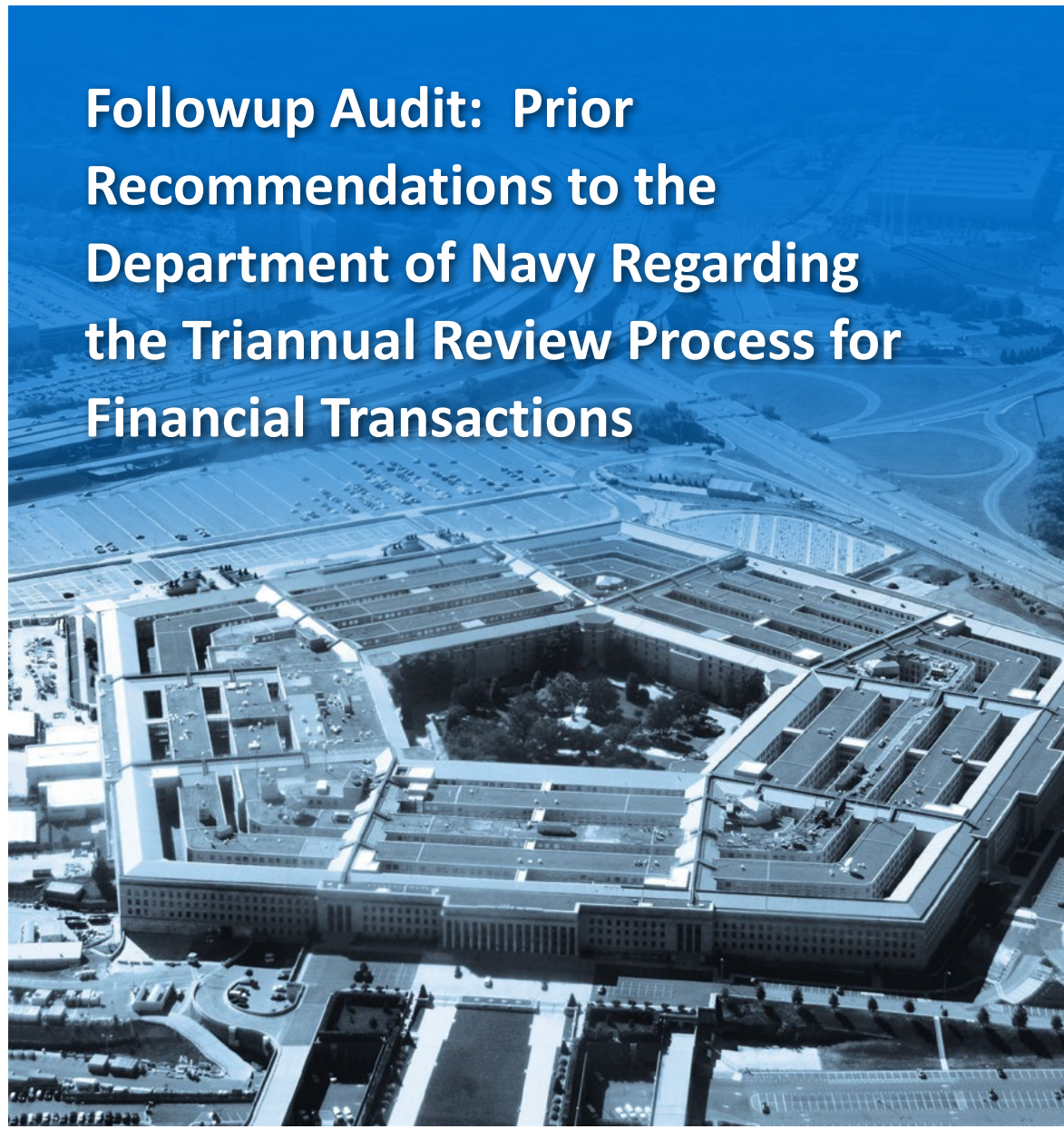




INSPECTOR GENERAL

U.S. Department of Defense

MARCH 19, 2018



Followup Audit: Prior Recommendations to the Department of Navy Regarding the Triannual Review Process for Financial Transactions

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Results in Brief

Followup Audit: Prior Recommendations to the Department of Navy Regarding the Triannual Review Process for Financial Transactions

March 19, 2018

Objective

We determined whether the Department of the Navy (DON) effectively implemented corrective actions in response to open recommendations in reports, DoD OIG Report No. DODIG-2015-127, "Triannual Review Processes Need Improvement at Three Naval Budget Submitting Offices," May 18, 2015, and DoD OIG Report No. DODIG-2015-072, "Improvements Needed for Navy's Triannual Review," January 22, 2015. We also determined whether the DON triannual review (TAR) for the period ending January 31, 2017, was performed in accordance with the DoD Financial Management Regulation (FMR).

Background

We initiated this audit in response to a March 2016 request by the DON Office of Budget within the Office of the Assistant Secretary of the Navy for Financial Management and Comptroller (ASN[FM&C]). Specifically, the DON Office of Budget requested that we review the actions it took to address the recommendations from the 2015 reports and if possible close the recommendations.

The TAR is an internal control practice that checks the timeliness, accuracy, and completeness of commitments, obligations, accounts payable, accounts receivable, and unfilled customer orders (financial transactions). The TAR occurs three times per fiscal year, with review periods ending on January 31, May 31, and September 30.

Background (cont'd)

The goal of the TAR is to identify financial obligations that can be canceled or used for another purpose before the associated funds expire.

We issued two reports in 2015 that addressed problems with the DON's TAR (DODIG-2015-127 and DODIG-2015-072). Specifically, we found that DON Budget Submitting Offices (BSOs) did not support the validity and accuracy of obligations reviewed during the TAR. Because the DON Office of Budget did not issue standard operating procedures (SOPs) and perform quality assurance, the DON's TAR of obligations (both unliquidated obligations and unfilled orders) did not provide reasonable assurance that balances reported on the financial statements were correct. As of November 1, 2017, 11 recommendations from our prior reports remained open. In addition, in DoD OIG Report No. DODIG-2015-127, we found that BSOs did not have documentation to support whether \$214.4 million in obligations were accurate and still needed.

Finding

We determined that the DON Office of Budget took corrective actions that implemented 2 of the 11 open recommendations made in our prior reports. Specifically, the DON Office of Budget trained BSO personnel regarding their TAR roles and responsibilities. The DON Office of Budget also developed a TAR SOP; however, it did not implement the SOP and take actions to correct the findings identified in our prior reports. Specifically, the DON Office of Budget did not:

- implement its SOP to improve key TAR processes, such as uniformly collecting complete financial transactions and consistently reporting the TAR review results; or
- conduct reviews of BSO TAR reports.

In addition, the DON Office of Budget did not ensure that DON BSOs completed the TAR in accordance with the DoD FMR. Of the 11 BSOs we reviewed, only 3 BSOs complied with the DoD FMR.



Results in Brief

Followup Audit: Prior Recommendations to the Department of Navy Regarding the Triannual Review Process for Financial Transactions

Finding (cont'd)

This occurred because the DON Office of Budget officials focused on developing standard queries needed to extract data from many complex financial systems before developing and implementing an SOP. The DON has attempted multiple efforts since 2015 to implement tools and capabilities sufficient to remediate the previous recommendations. However, due to the complexities of multiple financial systems, this effort produced minimal results and was put on hold in favor of a manual, labor-intensive effort. The DON Office of Budget officials continue to work with DON system owners to find an automated solution to develop data sets from multiple DON accounting systems and alleviate the manual data call method currently in use.

As a result, the DON may not identify financial obligations that can be canceled or used for another purpose before the funds expire. Additionally, the TAR, as currently implemented, is not an effective internal control for monitoring financial transactions; as a result, the amounts reported on the DON financial statements might be inaccurate.

Recommendations

Although we are not making new recommendations, 9 of the 11 resolved recommendations from the prior reports remain open.

Management Comments Required

The DON Office of Budget did not provide comments to the draft report. We request that the DON Office of Budget provide comments on the final report.

Please see the Recommendations Table on the next page.

Recommendations Table

Management	Recommendations Unresolved	Recommendations Resolved	Recommendations Closed
Director, Department of the Navy Office of Budget	DODIG-2015-127: 2.a; 2.c; and 2.e. DODIG-2015-072: 1; 2.a; 2.b; 2.d; 2.e; and 3.	None	DODIG-2015-127: 2.b; 2.d.

Please provide Management Comments by April 18, 2018.

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 19, 2018

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE DEFENSE (COMPTROLLER)/CHIEF
FINANCIAL OFFICER, DOD
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
NAVAL INSPECTOR GENERAL

SUBJECT: Audit Followup on Prior Recommendations to the Department of
the Navy Regarding the Triannual Review Process for Financial
Transactions (Report No. DODIG-2018-085)

We are providing this report for review and comment. We conducted this audit in accordance with generally accepted auditing standards.

Please send a PDF file containing your comments to audclev@dodig.mil by April 18, 2018. Copies of your comments must have the actual signature of the authorizing office 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 cooperation and assistance received during the audit. 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 Department of the Navy (DON) effectively implemented the corrective actions in response to open recommendations in DoD OIG Report No. DODIG-2015-127, “Triannual Review Processes Need Improvement at Three Naval Budget Submitting Offices,” May 18, 2015, and DoD OIG Report No. DODIG-2015-072, “Improvements Needed for Navy’s Triannual Review,” January 22, 2015. We also determined whether the DON triannual review (TAR) was performed in accordance with the DoD Financial Management Regulation (FMR). See Appendix A for our scope and methodology.

Background

We initiated this audit in response to a March 2016 request by the DON Office of Budget within the Office of the Assistant Secretary of the Navy for Financial Management and Comptroller (ASN[FM&C]). Specifically, the DON Office of Budget requested that we review the actions taken by the DON Office of Budget to address the recommendations from the 2015 reports and potentially close the recommendations.

The TAR is an internal control practice that checks the timeliness, accuracy, and completeness of commitments, obligations, accounts payable, accounts receivable, and unfilled customer orders (financial transactions). DoD Regulation 7000.14-R, “DoD Financial Management Regulation” (FMR), defines these terms.

- Commitment is an administrative reservation of funds based upon firm procurement requests, orders, directives, and equivalent instruments.
- Obligation is a legally binding agreement or action that will result in outlays, immediately or in the future.
- Accounts payable are amounts owed to other entities for goods and services received (actual or constructive receipt), progress in contract performance, and rents due to other entities.
- Accounts receivable are amounts that arise from claims to cash or other assets against another entity. A receivable must be established at the time revenue is recognized and payment has not been received in advance.
- Unfilled customer orders are the amount of orders accepted from organizations within the U.S. Government on a reimbursable basis, or from the public (for goods and services) for amounts collected in advance for orders that have not been fulfilled, per request.

The TAR occurs three times per fiscal year with review periods ending on January 31, May 31, and September 30. An effective TAR will determine whether obligation and disbursement balances are accurate and valid. The TAR is a critical part of the DoD and DON internal control process, which helps the DON report accurate financial information. The purpose of the TAR is to identify financial obligations that can be canceled or used for another purpose before funds expire. These transactions make up the total budgetary resources on the financial statements.

In response to Recommendation 1 in DODIG-2015-127, the Office of the Under Secretary of Defense (Comptroller) (OUSD[C]) updated the DoD FMR, volume 3, chapter 8, “Standards for Recording and Reviewing Commitments and Obligations,” to require standard queries, standard reports, or both; file naming, file structure, and data fields for supporting documentation. The update also requires the proper recording of the status of each commitment, obligation, accounts payable, accounts receivable, and unfilled customer order transactions.¹ In addition to the DoD FMR update, the OUSD(C) issued the TAR Quick Reference Guide in March 2016. The TAR Quick Reference Guide provides clarification around the processes and procedures that should be established and implemented during the TAR and includes the roles and responsibilities of personnel responsible for performing the TAR; procedures that must be followed; and adequate oversight.

Triannual Review Process

The DON Office of Budget coordinates the evaluation of the overall budget process, which includes the TAR. The DON Office of Budget is required to provide updated TAR guidance for each TAR period to its 18 Budget Submitting Offices (BSOs). See Appendix A for a list of the 18 BSOs. During the TAR, funds holders, with assistance from supporting accounting offices, review dormant and current financial transactions for timeliness, accuracy, and completeness.² Upon completing the TAR, funds holders prepare statements to confirm that they have conducted the required review and verified the accuracy and completeness of the recorded amounts. The funds holders then submit the TAR results to their BSO. The BSO comptrollers review a sample of transactions and complete the confirmation statement that verifies both the completion of the TAR and the accuracy and completeness of the recorded amounts. The BSOs, in turn, submit the results of the TAR to the DON Office of Budget. Finally, the DON Office of Budget reviews and summarizes the TAR results, and provides the results to the OUSD(C).

¹ DoD FMR, Volume 3, Chapter 8.

² According to DoD Regulation 7000.14-R, “DoD FMR,” volume 3, chapter 11, a funds holder is a DoD official who receives funds and obligates and manages those funds. DoD FMR, volume 3, chapter 8, balances are dormant if they have not been liquidated, and no obligations, adjustments, contract modifications, disbursements, or withdrawals occur within a 120-day period.

In addition to the TAR requirement, the ASN(FM&C) requested that all BSOs complete a special review of dormant and invalid undelivered and unfilled customer order transactions from FY 2010 through 2015 by March 31, 2017. The special review required DON BSOs to identify, analyze, and write-off dormant or invalid balances. Furthermore, since it addresses some of the TAR reporting requirements, the special review was to be conducted concurrently with the TAR. However, due to the large number of transactions that were required for both reviews, the OUSD(C) and the DON Office of Budget exempted seven BSOs from completing the January 31, 2017, TAR.³ The ASN(FM&C) determined the special review was more beneficial than the TAR during this period to prepare for the full financial statement audit.

Of the 18 DON BSOs, 16 reported \$70.3 billion in obligations, and reviewed obligations worth \$37.4 billion. In addition, 7 of the 18 DON BSOs were exempted by OUSD(C) and the DON Office of Budget from completing the January 31, 2017 TAR; therefore, we only reviewed TAR results for 11 DON BSOs.⁴ Table 1 shows the total number and value of transactions and the number of transactions reviewed by 16 BSOs for the DON TAR.

Table 1. Financial Transactions Reviewed for January 31, 2017 Triannual Review

	Total Records	Value of Total Records (in millions)	Records Reviewed	Value of Records Reviewed (in millions)	Percentage Records Reviewed
Commitments	24,618	\$12,501.7	7,052	\$1,988.1	29
Obligations	1,023,343	\$70,338.3	574,004	\$37,378.7	56
Accounts Payable	1,205,998	\$4,879.2	608,423	\$1,849.0	50
Accounts Receivable	201,414	\$1,183.8	13,601	\$416.3	7
Unfilled Customer Orders	76,712	\$7,417.8	46,197	\$3,478	60

Source: The Program Budget Information System

³ Naval Sea Systems Command, Naval Facilities Engineering Command, United States Fleet Forces Command, United States Pacific Fleet Forces Command, Naval Intelligence Activity, Commander, Office of Naval Research, and Space and Naval Warfare Systems Command.

⁴ The Naval Facilities Engineering Command (NAVFAC) and the Naval Sea Systems Command were 2 of the 7 BSOs exempted from the TAR, but these commands performed the special review required by ASN(FM&C). The two BSOs reviewed dormant undelivered and unfilled customer order transactions for FYs 2012–2015 to determine whether those transactions were invalid. However, neither NAVFAC nor the Naval Sea Systems Command reported their results based on instructions received from the DON Office of Budget.

Summary of Prior Audits

In 2015, we issued two reports, DODIG-2015-127 and DODIG-2015-072. These reports presented 12 recommendations that addressed problems with the DON's TAR. Of these recommendations, 11 were open as of November 1, 2017. See Appendix B for the list of open recommendations.⁵ Specifically, the prior audits concluded that DON commands did not support the validity and accuracy of obligations reviewed during the TAR because the DON Office of Budget had neither issued standard operating procedures (SOPs) nor performed quality assurance reviews. As a result, the DON's TAR of obligations (both unliquidated obligations and unfilled orders) did not provide reasonable assurance that balances reported on the financial statements were correct.

According to the 2015 audit reports, the DON Office of Budget could not provide a complete list of obligations for the TAR period ending January 31, 2014, because it did not have a standard process for compiling the universe of obligations. In addition, the DON Office of Budget did not develop an SOP for what would constitute adequate supporting TAR documentation and did not conduct proper oversight of the TAR reports. Specifically, the DON Office of Budget did not perform comprehensive reviews of the TAR reports, reconcile BSO TAR results, or monitor and follow-up on inconsistencies reported by the BSOs. As a result, the BSOs provided the DON Office of Budget incomplete documentation pertaining to obligations.

Review of Internal Controls

DoD Instruction 5010.40 requires DoD organizations to implement a comprehensive system of internal controls. The purpose of these internal controls is to provide reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls.⁶ We identified internal control weaknesses related to the implementation of DoD FMR, volume 3, chapter 8. Specifically, DON officials did not implement any SOPs to improve key TAR processes, such as uniformly collecting complete financial transactions and consistently reporting results of the TAR reviews; and conducting reviews of BSO TAR reports. We will provide a copy of the final report to the senior official responsible for internal controls in the Department of the Navy.

⁵ DoD OIG Report No. DODIG-2015-072, recommendation 2.c, "to prepare and report the results of the TAR in a standard reporting format" is closed.

⁶ DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013.

Finding

Corrective Actions Were Not Implemented to Improve the Navy's Triannual Review and Compliance

The DON Office of Budget took corrective actions by training BSOs personnel regarding their TAR roles and responsibilities that addressed 2 of the 11 open recommendations made in our prior reports. The DON Office of Budget also developed a TAR SOP; however, it did not implement the SOP and take actions to correct the findings identified in our prior reports. Specifically, the DON Office of Budget did not:

- implement its standard operating procedures (SOPs) to improve key TAR processes, such as uniformly collecting complete financial transactions and consistently reporting results of the TAR reviews; or
- conduct reviews of BSO TAR reports.

In addition, the DON Office of Budget did not ensure that DON BSOs completed the TAR in accordance with the DoD FMR.⁷ Of the 11 BSOs we reviewed, only 3 BSOs complied with the DoD FMR.

The DON Office of Budget officials focused on developing standard queries needed to extract data from many complex financial systems before developing an SOP and implementing it. Since 2015, the DON has attempted multiple efforts to implement tools and capabilities sufficient to remediate the prior year recommendations. However, due to complexities of multiple financial systems, this effort produced minimal results and was put on hold for a manual, labor-intensive effort. The DON Office of Budget officials continue to work with DON system owners to find an automated solution to develop data sets from multiple DON accounting systems and alleviate the manual data call method.

As a result, the DON may not identify financial obligations that can be canceled or used for another purpose before funds expire. Additionally, if the TAR is not effective as an internal control for monitoring financial transactions, reported amounts on DON financial statements might be inaccurate.

⁷ DoD FMR, volume 3, chapter 8.

Implementation Status of Prior Audit Recommendations

As of this report, the DON Office of Budget addressed 2 of 11 open recommendations. Specifically, the DON Office of Budget trained BSO personnel regarding their TAR roles and responsibilities and developed a TAR SOP. However, the DON Office of Budget did not:

- implement SOPs to improve key TAR processes, such as uniformly collecting complete financial transactions for the TAR, and consistently reporting results of reviews; or
- complete reviews of BSO TAR reports.

Table 2 shows the nine recommendations made in the prior reports that are still open.

Table 2. Nine Recommendations from DODIG-2015-127 and DODIG-2015-072

	Recommendation	Report Number	Recommendation Number
SOP	Create and implement procedures based on updates to DoD FMR, volume 3, chapter 8, "Standards for Recording and Reviewing Commitments and Obligations"	DODIG-2015-127	Recommendation 2.a
	Develop standard queries for the BSOs to ensure completeness of data extracted for TARs	DODIG-2015-072	Recommendation 1
	Compile a universe of obligations for the BSOs to use in performing the TAR	DODIG-2015-072	Recommendation 2.a
	Validate that the BSOs consistently extract data on unliquidated obligations and unfilled orders from the Navy accounting systems when completing the TAR	DODIG-2015-072	Recommendation 2.b
	Record the status of each obligation	DODIG-2015-072	Recommendation 2.d
	Develop standard naming conventions and formats for TAR reporting	DODIG-2015-072 DODIG-2015-127	Recommendation 2.e Recommendation 2.e
Reviews	Perform reviews of all BSOs to determine the effectiveness of implementation of the TAR	DODIG-2015-127	Recommendation 2.c
	Conduct comprehensive reviews, including reconciliations, of the TAR results and follow up on inconsistencies	DODIG-2015-072	Recommendation 3

Triannual Review Training Conducted

The DON Office of Budget officials did not conduct training for BSOs and funds holders prior to the January 2017 TAR, in accordance with the DoD FMR and DON TAR SOP. Subsequent to the January 2017 TAR, DON Office of Budget personnel provided documentation supporting several actions taken subsequent to our fieldwork. For the May and September 2017 TAR periods, the DON Office of Budget provided:

- an updated DON TAR SOP;
- guidance memorandums for the May and September 2017 TAR periods;
- a TAR training presentation in June 2017, and the attendees list; and
- a lessons learned presentation after the May 31, 2017 TAR.

DON Office of Budget personnel provided training to all the BSOs, to include the Naval Air Systems Command (NAVAIR), the Marine Corps, and the Naval Facilities Engineering Command (NAVFAC). The training materials included the TAR roles and responsibilities, such as the TAR process flow; sampling of sub-populations, thresholds, and materiality; and the DON TAR template. In addition to training, a lessons learned presentation that addressed problems encountered during the May 31 TAR period, was also provided to the BSOs. As a result, we concluded that the DON Office of Budget implemented Recommendation 2.b, to train NAVAIR, Marine Corps, and NAVFAC BSOs and their funds holders on their triannual review responsibilities, and Recommendation 2.d, to identify corrective actions and provide training for other BSOs found to be noncompliant in the prior report (DODIG-2015-127). Therefore, the Recommendations 2.b and 2.d are considered closed.

Standard Operating Procedures Need Improvement and Implementation

In response to the prior audit reports, the DON Office of Budget developed the DON's TAR SOP in August 2016 to establish a clear understanding of uniform procedures for the DON TAR process. However, the procedures were not implemented across the BSOs, and did not address compiling complete data for the TAR or reporting the results of reviews. In addition, the DON Office of Budget did not ensure that DON BSOs completed the TAR in accordance with the DoD FMR.⁸

The DON consists of 18 BSOs that receive DON funds and are thereby required to complete the TAR and report results to the DON Office of Budget. Of the 11 BSOs reviewed, only 3 performed the TAR in accordance with the DoD FMR.

⁸ DOD FMR, volume 3, chapter 8.

The remaining 8 BSOs did not use standard queries, obtain all transactions, or use a standard file naming structure and format; furthermore, the BSOs did not record the status of commitments, obligations, accounts payable, accounts receivables, and unfilled customer orders. See Appendix C for a list of the 11 BSOs reviewed and whether they complied with TAR requirements of DoD FMR, volume 3, chapter 8.

According to the DoD FMR, volume 3, chapter 8, the assistant secretaries of the Military Departments (financial management and comptroller), should implement effective internal controls to ensure that the required reviews and identified corrective actions are completed in a timely manner. The assistant secretaries and comptrollers should establish standard procedures for completing the TAR. The procedures must address a process for:

- standard queries, standard reports, or both, to ensure the completeness of data extracted;
- file naming, file structure, and data fields for supporting documentation;
- recording the status of each commitment, obligation, accounts payable, accounts receivable, and unfilled customer orders; and
- preparing and reporting results in a standard format.⁹

TAR Data Completeness

The DON Office of Budget did not establish standard queries to collect complete TAR data. The DON Office of Budget attempted to standardize the TAR process by developing automated queries from the multiple accounting systems; however, it was unsuccessful. The BSOs used more than 12 different tools or queries to extract financial transactions from the DON's accounting systems. We found that 3 of the 11 BSOs did not provide complete lists of all open financial transactions at the time of the review date. According to the SOP, no matter which accounting system a command uses, the BSO must meet the minimum TAR requirements from the DoD FMR and the DON Office of Budget's SOP. In an attempt to standardize TAR data, the DON Office of Budget had the Defense Finance and Accounting Service add TAR reports to the Standard Accounting and Reporting System for the benefit of BSOs that use that system. *We concluded that the DON Office of Budget did not implement the following recommendations from the prior report (DODIG-2015-072)—Recommendation 1, develop standard queries for the BSOs to ensure completeness of data extracted for TARs; and Recommendation 2.a, compile a universe of obligations for the BSOs to use in performing the TAR; therefore, the recommendations will remain open.*

⁹ DoD FMR, volume 3, chapter 8.

The TAR serves as a critical internal control for ensuring that obligation and disbursement transactions are valid, accurate, and complete. According to the DoD FMR, the DON Office of Budget should establish an SOP for completing the TAR; the SOP must address either standard queries or standard reports, or both, to ensure the completeness of data extracted. However, 3 of the 11 BSOs did not demonstrate or support that their population of open balances included all transactions. For example, personnel from the Marine Corps BSO could not attest to the validity, accuracy, and completeness of the population of financial transactions because the data extraction does not include current transactions. *We concluded that the DON Office of Budget did not implement the following recommendation from the prior report (DODIG-2015-072)—Recommendation 2.b, validate that the BSOs consistently extract data on unliquidated obligations and unfilled orders from the Navy accounting systems when completing the TAR; therefore, the recommendation will remain open.*

TAR Naming Convention

Although the DON's TAR SOP provides the standard naming convention, "BSO Name–Fiscal Year–TAR Period Recorded" for TAR reports, we found that 7 of the 11 BSOs did not use the naming convention. The DON Office of Budget personnel stated that they did not perform an oversight review to determine whether the BSOs have implemented a standard naming convention during the first reporting period of FY 2017.

The DON's TAR SOP specifies that the BSO TAR data archives include specific data fields, such as the document number, fiscal year, appropriation, status, reviewed by, commitment amount, obligation amount, adjusted date, and amount deobligated. However, the SOP does not specify the format that funds holders are required to use when submitting their TAR reviews. For example, the funds holders for Commander, Navy Installations Command, extracted their own data to perform the TAR and did not use a standard format. Because a standard format was not used, the 14 funds holders submitted their results using different formats and BSO personnel could not combine the information into a single population to perform the BSO review. *We concluded that the DON Office of Budget did not implement the following recommendations from the prior reports—Recommendation 2.e (from DODIG-2015-072), and Recommendation 2.e (from DODIG-2015-127), develop and implement standard naming conventions and formats for TAR reporting; therefore, the recommendations will remain open.*

TAR Status Code

The DON's TAR SOP also stated that a status code would be assigned in the local BSO systems after a transaction is reviewed. The status code indicates whether the dollar amount is valid at the time of the TAR. At a minimum, TAR records should be marked with a status of "valid," "adjusted," "canceled," or "awaiting review by contract audit." In addition, comments, notes, or reason codes should indicate if a transaction remains valid or if the BSO took action after completing the review. However, funds holders and BSOs did not use a status code; therefore, we could not determine whether 6 of the 11 BSOs reviewed the sample of dormant transactions and confirmed that the transactions were appropriately classified as valid or invalid. For example, neither Office of the Chief of Naval Operations (Assistant for Field Support Activity) personnel nor its funds holders used status codes that identified transactions as valid or invalid. When asked how the BSO determined the sample items were valid or invalid, the BSO stated each funds holder provided their reports and a signed confirmation statement to support their validation of dormant transactions. *We concluded that the DON Office of Budget did not implement the following recommendation from the prior report (DODIG-2015-072)—Recommendation 2.d, record the status of each obligation; therefore, the recommendation will remain open.*

The DON Office of Budget did not implement the SOP across the BSOs and did not consistently address compiling complete data for the TAR, or reporting the results of reviews. *We concluded that the DON Office of Budget did not implement Recommendation 2.a, create and implement procedures based on updates to DoD FMR, volume 3, chapter 8, "Standards for Recording and Reviewing Commitments and Obligations" in the prior report (DODIG-2015-127); therefore, the recommendation will remain open.*

Quality Assurance Reviews Were Not Implemented

The DON Office of Budget did not perform comprehensive quality assurance reviews and spot checks of BSO TAR reports, in accordance with the DoD FMR and the DON TAR SOP.

The DoD FMR requires the assistant secretaries of the Military Departments (financial management and comptroller) to provide evidence of TAR reviews, along with all supporting documentation, to the OUSD(C), Financial Improvement and Audit Readiness Directorate. At a minimum, the DON Office of Budget is required to review and document the BSO TAR reports, and review the documentation of any funds holder that was unable to complete the required review or confirm the accuracy and validity of financial transactions.¹⁰

¹⁰ DoD FMR, volume 3, chapter 8.

According to the DON TAR SOP, after the BSO submits the TAR reports, the DON Office of Budget should perform a review of each BSO TAR, aggregate the data, and input it into the DON's consolidated TAR. The consolidated TAR is then submitted to the OUSD(C) Financial Improvement and Audit Readiness Directorate. During this review, the DON Office of Budget examines the BSO TAR submissions to confirm that they were prepared by the funds holders and reviewed by the BSOs. If the BSO TAR submission contains errors, the DON Office of Budget will notify the BSO staff for resolution. In addition, the DON Office of Budget should perform an analysis and review of the BSO TAR submissions. The DON Office of Budget then provides any potential issues, concerns, comments, and notes to the BSO for further explanation.

The DON Office of Budget was unable to provide evidence of a review. DON Office of Budget officials stated that they did not perform a comprehensive review of each BSO TAR report. According to DON Office of Budget officials, they focused on ensuring the BSO personnel had the necessary guidance, instruction, and technical capability to complete their TAR instead of performing the reviews. If the DON Office of Budget officials had performed a review, they would have discovered that the TAR for the Office of the Chief of Naval Operations (Assistant for Field Support Activity) was incomplete and did not reconcile against the BSO's total population. *We concluded that the DON Office of Budget did not implement the following recommendation from the prior report (DODIG-2015-072)—Recommendation 3, conduct comprehensive reviews, including reconciliations, of the TAR results and follow up on inconsistencies. The DON Office of Budget also did not implement the following recommendations from the prior report (DODIG-2015-127)—Recommendation 2.c, perform reviews of all BSOs to determine the effectiveness of implementation of the TAR; therefore, the recommendations will remain open.*

Attempts to Address TAR Data Issues Hindered Implementing Recommendations

DON Office of Budget officials did not implement SOPs, perform reviews, or train BSO personnel because the DON was unable to develop standard queries needed to extract data from many complex financial systems. The DON Office of Budget officials stated that they attempted multiple efforts since 2015 to implement tools and capabilities sufficient to remediate the prior year recommendations. The DON Office of Budget first worked with BSO subject matter experts and system owners to identify standard queries to extract data from the accounting systems. However, due to complexities of multiple financial systems, this effort produced minimal results and was abandoned for a manual, labor-intensive effort. The DON Office of Budget continues to work with DON system owners to find an automated solution to develop data sets from multiple DON accounting systems and alleviate the manual data call method.

Critical Internal Control Weakness Not Corrected

We determined that the DON TAR process still needs improvement. Although the DON Office of Budget developed an SOP, it was not implemented. In addition, the DON Office of Budget did not address standard queries, perform comprehensive or quality assurance reviews, or provide training to BSO personnel. Therefore, the DON's internal control over the ability to put funds to better use remained ineffective, as did the DON's ability to determine the validity and accuracy of financial transactions and account balances.

In DoD OIG Report No. DODIG-2015-127, we found that BSOs did not have documentation to support whether \$214.4 million in obligations for the May 2014 TAR were accurate and still needed. Because the recommendations were not implemented, it is likely that funds still exist that could be deobligated and put to better use.

From a financial audit perspective, one outcome of a well-executed and documented TAR is to provide evidence of the reasonableness of open balances in support of auditable financial statements.¹¹ If the TAR is not effective as an internal control for monitoring financial transactions, the DON has no assurance that the amounts on the financial statements are accurate, which will cause auditors to perform additional substantive testing for the DON's financial statement audit that are in progress.

Recommendations

We are not making new recommendations in this followup audit, but 9 of the 11 open recommendations from prior reports will remain open.

Management Comments Required

The DON Office of Budget did not provide comments to the draft report. We request that the DON Office of Budget provide comments on the final report.

¹¹ DoD FMR, Volume 3, Chapter 8.

Appendix A

Scope and Methodology

We conducted this performance audit from April 2017 through January 2018 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We issued two reports; DoD OIG Report No. DODIG-2015-127, “Triannual Review Processes Need Improvement at Three Naval Budget Submitting Offices,” May 18, 2015, and DoD OIG Report No. DODIG-2015-072, “Improvements Needed for Navy’s Triannual Review,” January 22, 2015 with 12 recommendations that addressed problems with the DON’s TAR. Only the recommendation to prepare and report the results of the triannual review in a standard reporting format (DODIG-2015-072) was closed. This audit reviewed the remaining 11 open recommendations. See Appendix B for the open recommendations.

To answer our audit objective, we reviewed documentation from the TAR period ending January 31, 2017. We reviewed the DoD FMR and the Triannual Review Quick Reference Guide to develop the procedures performed during this audit.¹² We met with personnel from the OUSD(C), Financial Improvement and Audit Readiness Directorate, and the Assistant Secretary of the Navy (Financial Management and Comptroller) (ASN[FM&C]) Office of Budget. We also obtained the DON’s summary TAR report from the Program Budget Information System. The report does not include results from the Naval Facilities Engineering Command and the Naval Sea Systems Command. We developed a questionnaire regarding the BSO TAR process and submitted it to each of the BSOs. We requested documents for data such as the population of commitment, unliquidated obligation, accounts payable, accounts receivable, and unfilled customer order data. We also requested evidence of a BSO review and confirmation statements for the TAR period ending January 31, 2017; specifically, we requested this information from the following BSOs:

- Office of the Chief of Naval Operations (Assistant for Field Support Activity),
- Department of the Navy Assistant for Administration,
- Office of Naval Research,

¹² DoD FMR, Volume 3, Chapter 8.

- Naval Intelligence Activity,
- Navy Bureau of Medicine and Surgery,
- Naval Air Systems Command,
- Bureau of Naval Personnel,
- Naval Supply Systems Command,
- Naval Sea Systems Command,
- Naval Facilities Engineering Command,
- Marine Corps,
- Strategic Systems Programs,
- Space and Naval Warfare Systems Command,
- Navy System Management Activity,
- Commander, Navy Installations Command
- U.S. Fleet Forces Command,
- Commander, U.S. Pacific Fleet, and
- Commander, Navy Reserve Force.

In addition, we also met with personnel from the BSOs regarding their process, and we obtained and reviewed the SOPs for both the Office of Budget and the BSO.

Although we requested documentation to support the January 2017 TAR from all 18 BSOs, 7 of the 18 BSOs did not perform a complete TAR. Instead, by March 31, 2017, these BSOs performed a special review of dormant; and invalid, undelivered, and unfilled, customer order transactions from FY 2012 through 2015. The special review addressed some of the reporting requirements of the TAR and was to be conducted concurrently with the TAR. However, the OUSD(C) and the DON Office of Budget exempted seven BSOs from completing the January 31, 2017 TAR due to the large number of transactions that were required for both reviews. Since these BSOs were exempted from performing the TAR, our universe consisted of the 11 BSOs that performed the TAR.

Use of Computer-Processed Data

We used computer-processed data extracted from the Standard Accounting and Reporting System; the Navy Enterprise Resource Planning system; and the Standard Accounting, Budgeting and Reporting System. BSO personnel used standard queries and tools, such as the Standard Accounting, Budgeting and Reporting System Management Analysis and Retrieval System; the Program Budget Information System; the Command Financial Management System; Continuous and Streamlined Tri-Annual Review; and Microsoft Access databases to extract the data and compile it into Microsoft Excel spreadsheets. The Excel spreadsheets listed commitment, unliquidated obligation, accounts payable, accounts receivable, and unfilled customer order data from the accounting systems. After reviewing the data, the BSOs compile the results of the review and input the TAR data into the Program Budget Information System. The DON Office of Budget extracted from the Program Budget Information System the TAR results for the period ending January 31, 2017; the DON Office of Budget then compiled the results in an Excel spreadsheet. We determined that the data was sufficiently reliable for our purposes because the Excel spreadsheet we obtained from the BSOs was used to determine if the BSO followed the DoD FMR, and the Excel spreadsheet we obtained from the Program Budget Information System was used for contextual or corroborating evidence. Therefore, we did not assess the reliability of the computer-processed data.

Appendix B

Prior Coverage

During the last 5 years, the Department of Defense Office of Inspector General (DoD OIG) issued three reports discussing information technology strategy for financial management systems. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/reports.html/>.

DoD OIG

Report No. DODIG-2015-127, “Triannual Review Processes Need Improvement at Three Naval Budget Submitting Offices,” May 18, 2015 OIG recommended that the Director, ASN(FM&C), Office of Budget:

1. create and implement procedures based on updates to DoD FMR, volume 3, chapter 8, “Standards for Recording and Reviewing Commitments and Obligations” (Recommendation 2.a);
2. train Naval Air Systems Command, the Marine Corps, and Naval Facilities Engineering Command and their funds holders on their triannual review responsibilities (Recommendation 2.b);
3. perform reviews of all budget submitting offices (BSOs) to determine the effectiveness of implementation of the TAR (Recommendation 2.c);
4. identify corrective actions and provide training for other BSOs found to be noncompliant (Recommendation 2.d); and
5. develop standard naming conventions and formats for TAR reporting (Recommendation 2.e).

Report No. DODIG-2015-072, “Improvements Needed for Navy’s Triannual Review,” January 22, 2015, OIG recommended that the Director, ASN(FM&C), Office of Budget:

1. develop standard queries for the BSOs to ensure completeness of data extracted for TARs (Recommendation 1);
2. develop and implement standard procedures to:
 - compile a universe of obligations for the BSOs to use in performing the TAR (Recommendation 2.a);
 - validate that the BSOs consistently extract data on unliquidated obligations and unfilled orders from the Navy accounting systems when completing the TAR (Recommendation 2.b);
 - record the status of each obligation (Recommendation 2.d);

- develop standard naming conventions and formats for TAR reporting (Recommendation 2.e); and
- conduct comprehensive reviews, including reconciliations, of the TAR results and follow up on inconsistencies (Recommendation 3).

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

The Norfolk Ship Support Activity Financial Management Officer certified unliquidated obligations that were invalid, not reviewed, and not supported during the January and May 2013 TAR periods. Of the 75 certified unliquidated obligations reviewed, 2 unliquidated obligations valued at \$3.9 million were valid; 16 unliquidated obligations valued at \$4.5 million were invalid; and 57 unliquidated obligations valued at \$24.6 million did not have sufficient documentation to support their validity.

Appendix C

Compliance with Triannual Review Requirements of DoD Financial Management Regulation, volume 3, chapter 8, “Standards for Recording And Reviewing Commitments and Obligations”

Table 3 identifies the 11 BSOs reviewed during this audit and whether their January 31, 2017 TAR complied with the DoD FMR, volume 3, chapter 8.

Table 3. BSO Compliance With DoD FMR.

Budget Submitting Office	Did not ensure population included all open balances	Did not use standard codes	Did not use standard naming convention
Office of the Chief of Naval Operations Assistant for Field Support Activity		X	
Department of the Navy/ Assistant for Administration		X	X
Chief, Bureau of Medicine and Surgery			X
Commander, Naval Air Systems Command			
Bureau of Naval Personnel		X	X
Commander, Naval Supply Systems Command			
Commandant of the Marine Corps	X		X
Director, Strategic Systems Programs		X	X
Navy System Management Activity			
Commander, Navy Installations Command	X	X	X
Commander, Navy Reserve Force	X	X	X

Source: DON TAR records for January 31, 2017.

Acronyms and Abbreviations

BSO	Budget Submitting Office
DON	Department of the Navy
FMR	Financial Management Regulation
ASN (FM&C)	Assistant Secretary of the Navy for Financial Management and Comptroller
NAVFAC	Naval Facilities Engineering Command
OUSD(C)	Office of the Under Secretary of Defense (Comptroller)
SOP	Standard Operating Procedures
TAR	Triannual Review

Glossary

Accounts Payable. Accounts payable are amounts owed to other entities for goods and services received (actual or constructive receipt), progress in contract performance, and rents due to other entities.

Accounts Receivable. Accounts receivable arise from claims to cash or other assets against another entity. An account receivable must be established at the time revenue is recognized and payment has not been received in advance.

Commitment. A commitment is an administrative reservation of funds based upon firm procurement requests, orders, directives, and equivalent instruments. A commitment, when recorded in the accounting records, reduces the available fund balance.

Funds Holder. An individual holding an administrative subdivision of funds or an operating target, who is responsible for incurring obligations against the administrative subdivision or target and for managing the use of such funds.

Obligation. Obligations incurred are the amounts of orders placed, contracts awarded, services received, and similar transactions during an accounting period that will require payment during the same or future period. When authorized agency personnel place an order, sign a contract, award a grant, purchase a service, or take other actions that require the Government to make payments to the public or from one Government account to another, the agency incurs an obligation.

Unfilled Customer Order. The amount of orders accepted from organizations within the U.S. Government on a reimbursable basis or from the public for goods and services for amounts collected in advance for orders that have not been fulfilled the order as requested.

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