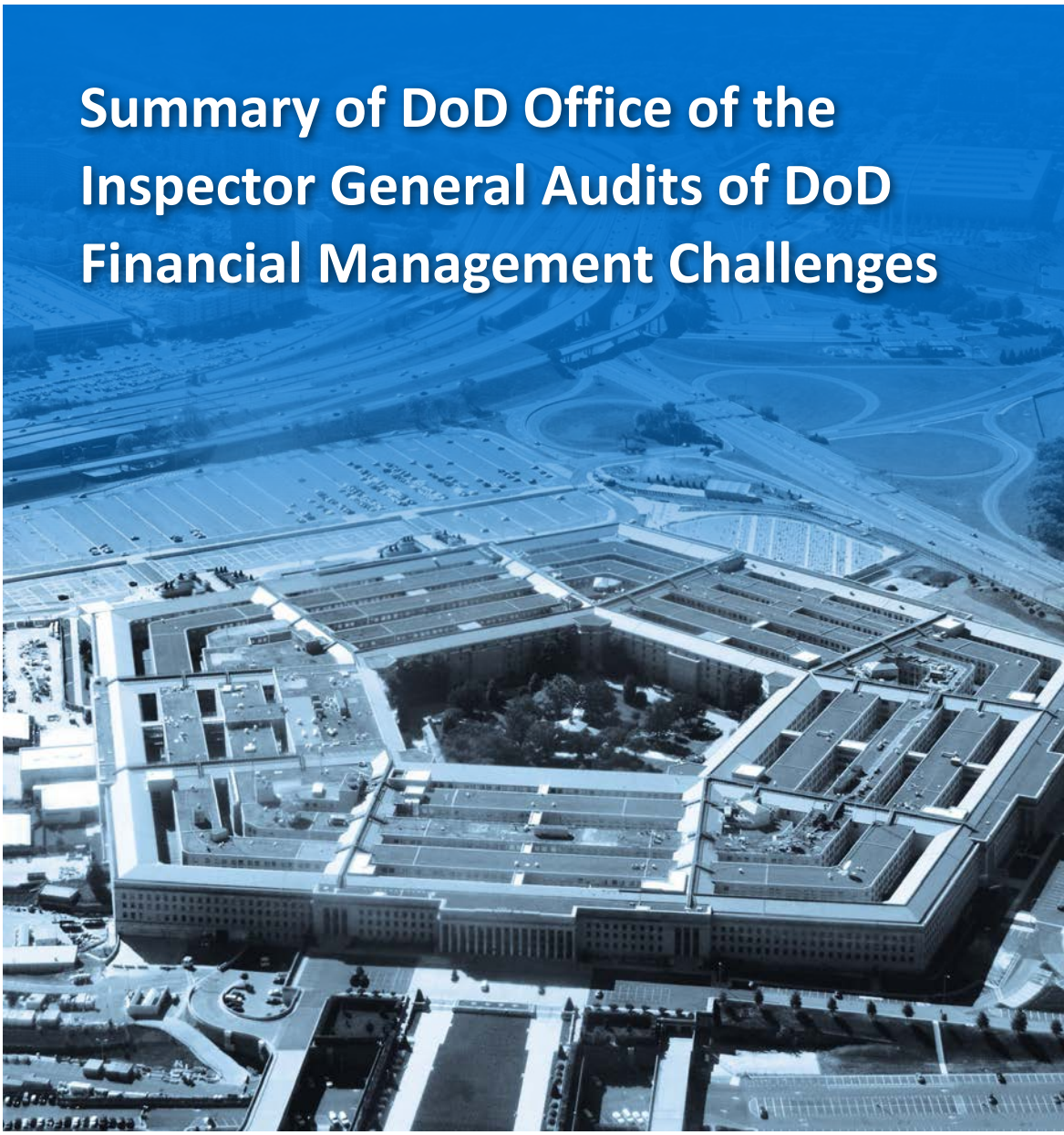
Report No. DODIG-2015-144

INSPECTOR GENERAL

U.S. Department of Defense

JULY 7, 2015

Summary of DoD Office of the Inspector General Audits of DoD Financial Management Challenges



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Results in Brief

Summary of DoD Office of the Inspector General Audits of DoD Financial Management Challenges

July 7, 2015

Objective

Our objective was to summarize DoD financial management challenges identified by the DoD Office of Inspector General (DoD OIG) from FY 2012 to current. Specifically, we reviewed and summarized the financial management material weaknesses and other audit concerns found in audit reports that the DoD OIG issued from October 1, 2011, through December 31, 2014.

What We Found

From October 1, 2011, through December 31, 2014, the DoD OIG issued 138 reports that discussed weaknesses pertaining to DoD financial management. The most prevalent areas of concern were DoD financial management systems, accounting entries, compliance with laws and regulations, and audit trails.

Of the 138 issued reports, 75 contained 668 recommendations to management for corrective action. As of March 3, 2015, DoD took corrective action in response to 537 of the 668 recommendations. However, 131 recommendations still remained open and required management to implement corrective action.

The majority of the recommendations addressed the need to improve or develop financial management systems, and address deficiencies in accounting entries, compliance with laws and regulations, and audit trails. In addition, several of the

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What We Found (cont'd)

reports summarized DoD management acknowledgments that the basic financial statements do not substantially conform with Generally Accepted Accounting Principles (GAAP), and financial management and feeder systems could not adequately support material amounts on the basic financial statements.

The weaknesses discussed in these reports, the open recommendations, and DoD management acknowledgments that the basic financial statements did not substantially conform to GAAP prevent the DoD OIG from obtaining sufficient and appropriate audit evidence to provide a basis for an audit opinion. The basic financial statements may also have undetected misstatements that were both material and pervasive. Furthermore, DoD may not achieve audit readiness by the statutory (legal) deadline of September 30, 2017.

What We Recommend

We are not making any recommendations in this report because the recommendations made in the respective individual reports, if implemented, should correct the weaknesses identified.

Management Comments

We do not require a written response to this report.

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July 7, 2015

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

SUBJECT: Summary of DoD Office of the Inspector General Audits of DoD Financial Management Challenges (Report No. DODIG-2015-144)

We are providing this report for your information and use. We did not issue a draft report because this report summarizes information that was already published. This report is a summary of the DoD Office of the Inspector General audit reports that discuss DoD's financial management challenges that were issued from FY 2012 through December 31, 2014. This report contains no recommendations; therefore, written comments are not required. Please direct questions to me at (703) 601-5945.

Lorin T. Venable

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Introduction

Objective

Our objective was to summarize DoD financial management challenges identified by the DoD Office of Inspector General (DoD OIG) from FY 2012 to current. Specifically, we reviewed and summarized the financial management material weaknesses and other audit concerns found in reports that the DoD OIG issued from October 1, 2011, through December 31, 2014. See Appendix A for our scope and methodology.

Background

DoD financial management covers a complex array of financial topics—including procurement, inventory, payroll, asset management, and real property—across a very complex organizational structure. The FY 2014 DoD Agency-wide financial statements reported about $2.2 trillion in assets, $2.5 trillion in liabilities, and a negative net position of $224 billion.[1]

The Chief Financial Officers (CFO) Act of 1990 identified DoD as one of several agencies required to establish a position for a CFO and to prepare and submit to the Office of Management and Budget (OMB) financial statements that were audited by either the DoD OIG or an independent public accountant. Under the CFO Act, DoD is required to prepare and obtain an audit opinion on nine financial statements.[2]

DoD OIG audits of those financial statements for FYs 1991 through 2001 identified pervasive and long-standing material weaknesses, which caused those financial statements to be unauditable. As a result, Congress passed the, "National Defense Authorization Act for Fiscal Year 2002," December 28, 2001, that limits the amount of audit work performed by the DoD OIG under the CFO Act based on management's representation regarding the reliability of the financial statements.

For FY 2002, the Under Secretary of Defense (Comptroller)/Chief Financial Officer (USD[C]/CFO) acknowledged to the DoD OIG that eight of the nine required financial statements were not reliable due to the 13 material weaknesses that the DoD OIG had previously identified. Accordingly, the DoD OIG limited audit work and issued a disclaimer of opinion on those eight financial statements. The Military Retirement Fund received an unmodified[3] audit opinion.

[1] The FY 2014 DoD Agency-Wide financial statements reported a negative $1.0 trillion in unfunded liabilities for the Military Retirement Fund, which contributed to a negative net position of $224 billion.

[2] Appendix B lists the nine required financial statements.

[3] An unmodified audit opinion means that the financial statements are reliable.

DoD recognized the need for financial reporting improvements and published its first Financial Improvement and Audit Readiness (FIAR) Plan in December 2005. The plan provides a process to fix internal controls, correct processes, and obtain an unqualified opinion on DoD's financial statements. The plan also sets milestones to resolve problems that affect the accuracy, reliability, and timeliness of financial information and focused on incremental improvements in line items or segments, but DoD has made minimal progress. Additionally, as DoD corrects internal control weaknesses in these areas, the sustainability of improvements will be key to achieve long-term, financial statement-level progress. However, sustaining improvements while aggressively executing its financial improvement in the remaining areas will continue to be a challenge for DoD.

DoD's method to improve financial information and auditability has evolved and has been refined since it issued the first FIAR Plan in 2005. The FIAR priorities were established in August 2009 and require DoD Components to focus on improving processes, controls, and systems supporting information most often used to manage the DoD. To achieve these objectives, the FIAR priorities are budgetary information and mission critical asset information.

Since 2010, the FIAR has provided guidance to DoD in its pursuit of audit-ready financial statements. On April 10, 2015, the USD(C)/CFO issued the latest FIAR Guidance. The Guidance uses feedback, experiences, successes, and lessons learned to date. The USD(C)/CFO updated the Guidance to improve implementation by including critical milestones and timelines necessary to track and measure incremental progress. Unless DoD takes action to address the 13 material weaknesses identified in this report, DoD's ability to be audit-ready by FY 2017 is at risk.

Public Law 111-84[4] requires DoD to have audit-ready financial statements by September 30, 2017. DoD acknowledged that it has made this requirement a priority goal. To achieve audit readiness, DoD strengthened internal controls and improved financial practices, processes, and systems so there is reasonable confidence the information can withstand review by an independent auditor. However, as of FY 2014, the Deputy Secretary of Defense acknowledged that DoD still cannot produce auditable financial statements, and management cannot assure if the internal controls over financial reporting are effective. As a result, seven of the nine financial statements remained unreliable because of the 13 previously identified material weaknesses. The DoD OIG issued a disclaimer of opinion

[4] Public Law 111-84, "The National Defense Authorization Act for Fiscal Year 2010," Title X, "General Provisions," Subtitle A, "Financial Matters," Section 1003, "Audit Readiness of Financial Statements of the Department of Defense," October 28, 2009.

for those seven financial statements for over a decade. For the two financial statements that remain, the Military Retirement Fund and the U.S. Army Corps of Engineers Civil Works Program have both received unmodified audit opinions since FY 1995 and FY 2008, respectively.

Appendix A explains the methodology we used to review the reports and how we determined the material weaknesses and other areas of concern used to summarize our results. Appendix B lists the nine DoD reporting entities required to provide audited financial statements. Appendix C shows the number of open recommendations by material weakness and other areas of concern made in 75 reports. Appendix D shows the status of recommendations. Appendix E lists the DoD OIG reports used in this report and provides instructions on how to obtain copies. Each deficiency and the specific examples of problems identified in individual reports are discussed in the following sections.

Department of Defense Inspector General Testimony

The DoD Inspector General presented testimony on, "Improving Financial Accountability at the Department of Defense," before the Senate Homeland Security and Governmental Affairs Committee on May 13, 2014. In his testimony, the Inspector General discussed challenges that remained and could keep DoD from meeting the September 30, 2017, statutory (legal) deadline. He stated that the DoD must continue to pursue improvements in:

- data quality and timeliness;
- internal controls; and
- financial systems.

Additionally, the Inspector General highlighted the following 13 material internal control weaknesses that affect nearly every aspect of DoD's financial management operations.

- Financial Management Systems
- Fund Balance with Treasury
- Accounts Receivable
- Inventory
- Operating Materials and Supplies
- General Property, Plant, and Equipment
- Government Property in Possession of Contractors
- Accounts Payable

- Environmental Liabilities
- Statement of Net Cost
- Intragovernmental Eliminations
- Accounting Entries
- Reconciliation of Net Cost of Operations to Budget

Government Accountability Office High-Risk Area

The Government Accountability Office identified DoD financial management as an area of high risk for fraud, waste, abuse, and mismanagement in its 2015 high-risk series update.[5] According to Government Accountability Office, DoD's pervasive financial and related business management and system deficiencies continue to adversely affect its ability to:

- control costs;
- ensure basic accountability;
- anticipate future costs and claims on the budget;
- measure performance;
- maintain funds control;
- prevent and detect fraud, waste, and abuse; and
- address pressing management issues.

Review of Internal Controls

DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013, requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. We identified 13 material internal control weaknesses and four other areas of concern in 126 of the 138 reports we reviewed. The remaining reports did not have any of the 13 material internal control weaknesses or the other four areas of concern. We will not make any recommendations because the recommendations made in the respective individual reports, if implemented, should correct the material weaknesses identified.

[5] GAO-15-290, Report to Congressional Committees, "HIGH-RISK Series, An Update," February 2015.

Results

Audit Coverage of DoD Financial Management

From October 1, 2011, through December 31, 2014, the DoD OIG issued 138 reports that discussed weaknesses that pertained to DoD financial management. The most prevalent areas of concern were DoD financial management systems, accounting entries, compliance with laws and regulations, and audit trails.

Of the 138 issued reports, 75[6] contained 668 recommendations to management for corrective action. As of March 3, 2015, DoD took corrective action in response to 537 of the 668 recommendations. However, 131 recommendations still remained open and required management to implement corrective action. The majority of the open recommendations addressed the need to improve or develop financial management systems and address deficiencies in accounting entries, compliance with laws and regulations, and audit trails. In addition, several of the reports summarized DoD management acknowledgements that the basic financial statements did not substantially conform with GAAP, and financial management and feeder systems could not adequately support material amounts on the basic financial statements.

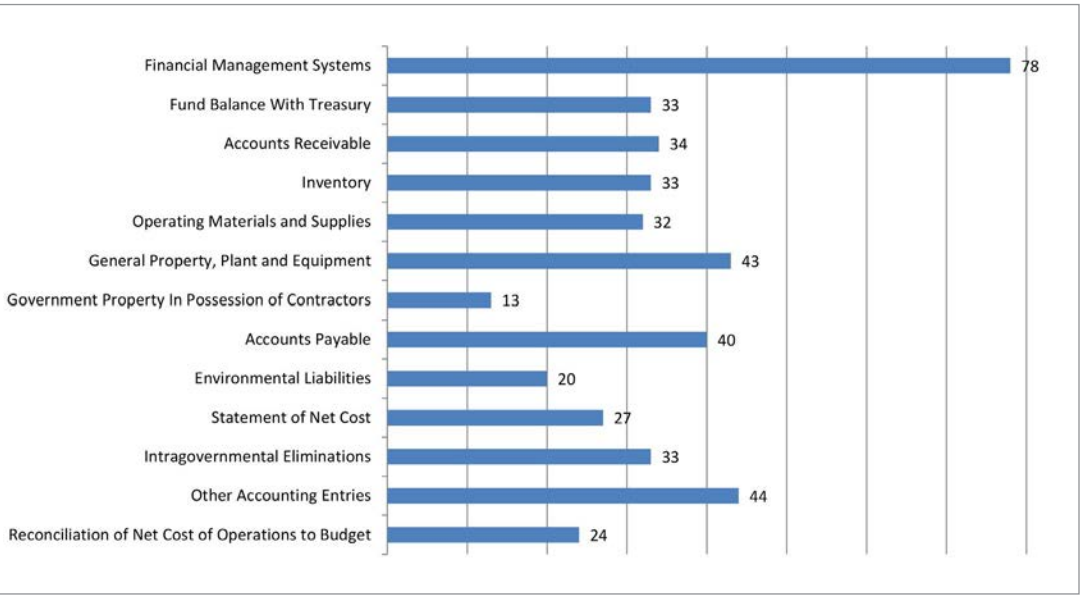
The weaknesses discussed in these reports, the open recommendations, and DoD management acknowledgements that the basic financial statements did not substantially conform to GAAP, prevent the DoD OIG from obtaining sufficient appropriate audit evidence to provide a basis for an audit opinion. The basic financial statements may also have undetected misstatements that were both material and pervasive. Furthermore, DoD may not achieve audit readiness by the statutory (legal) deadline of September 30, 2017.

[6] The remaining 63 reports did not make recommendations because they were opinion, disclaimer of opinion, or information and use reports.

Material Weaknesses

Statement of Auditing Standards No. 115[7] defines a material weakness as a deficiency, or combination of deficiencies, in internal control in which there is a reasonable possibility[8] that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. The following chart shows the number of DoD OIG reports that addressed each of the 13 material weaknesses on DoD financial management that were identified in the 138 DoD OIG audit reports issued from October 1, 2011, through December 31, 2014.

Chart 1. The Number of DoD OIG Reports That Addressed Each Material Weakness



DoD continues to acknowledge that the 13 longstanding material weaknesses prevent DoD from receiving an unmodified opinion on its Agency-wide financial statements. Therefore, the DoD OIG has performed limited audit work in these areas in accordance with the FY 2002 National Defense Authorization Act, which limits the amount of audit work that DoD OIG can perform until DoD asserts that they have made substantial progress in fixing these material weaknesses. Consequently, we limited our audit work on these material weaknesses and currently there are no open recommendations for the following five material weaknesses: accounts receivable, operating materials and supplies, government property in possession of contractors, environmental liabilities, and reconciliation of net cost of operations to budget. Most of the recommendations made by

[7] Statement of Auditing Standards No. 115, "Communicating Internal Control Related Matters Identified in an Audit."

[8] The Financial Accounting Standards Board Accounting Standards Codification glossary states a reasonable possibility exists when the likelihood of an event is either reasonably possible or probable.

the DoD OIG in the 75 reports were the result of financial-management-related performance audits. Many of the recommendations made and closed from these performance audits were recommendations to fix specific internal control deficiencies. Although the DoD OIG has closed 537 of the 668 recommendations, DoD still has 131 recommendations that affect DoD's ability to be audit-ready by the statutory deadline of September 30, 2017. In addition to recommendations to fix internal controls, open recommendations related to financial management systems, compliance with laws and regulations, and audit trails pose a significant challenge to DoD in achieving full financial statement auditability. The DoD OIG will continue to perform audit work regarding all 13 material weaknesses as appropriate, and make recommendations as needed.

Material Weakness 1. Financial Management Systems

Criteria

Statement of Federal Financial Accounting Concepts No. 1, "Objectives of Federal Financial Reporting," requires financial management system controls to ensure that transactions are executed in accordance with budgetary and financial laws and other requirements, consistent with the purposes authorized, and recorded in accordance with Federal accounting standards. It also requires that financial management system controls ensure assets are properly safeguarded to deter fraud, waste, and abuse and that performance measurement information be adequately supported.

Results

The DoD OIG issued 78 reports that discussed deficiencies in DoD financial management systems. DoD acknowledged that its financial management and feeder systems did not substantially comply with Federal financial management system requirements. DoD stated that systems were not designed to adequately support various material amounts on the basic financial statements. These systemic deficiencies in financial management and feeder systems and inadequate DoD business processes prevent DoD from collecting and reporting financial and performance information that is accurate, reliable, and timely. Of the 131 open recommendations, 69 pertained to DoD financial management systems. The following are examples of reports that discussed financial management system deficiencies.

- Report No. DODIG-2015-033[9] identified the USD(C)/CFO acknowledged that DoD financial management and feeder systems did not comply with Federal requirements. Specifically, the DoD financial management

[9] See Appendix E for report titles.

and feeder systems were not designed to adequately support various material amounts on the basic financial statements. As a result, DoD could not collect and report financial and performance information that was accurate, reliable, and timely.[10] See the following two examples for specific financial management systems that cannot provide adequately supported data.

- Report No. DODIG-2014-087 stated for the Army's December 2012 Appropriation Status Report,[11] Defense Finance and Accounting Service (DFAS) Indianapolis personnel used Defense Departmental Reporting System (DDRS)–Budgetary to make undocumented changes to the General Fund Enterprise Business System (GFEBS) feeder data associated with $4.2 billion in FY 2013 Army General Fund financial transactions, without appropriate reviews or approvals by higher-level officials. As a result, the December 2012 Appropriation Status Report may be misstated and the Army missed opportunities to improve the GFEBS data input and submission processes and reduce costs associated with preparing budget execution reports.
- Report No. DODIG-2013-057 identified that the Enterprise Business System (EBS) program managers did not use DoD Standard Financial Information Structure (SFIS) data standards to configure their Enterprise Resource Planning system to report U.S. Standard General Ledger financial data. Specifically, they did not:
    - properly implement 99 of 222 SFIS business rules, the SFIS Transaction Library posting logic, and 41 of 55 SFIS attributes;
    - correctly establish and update the system's capability to record and report DoD Standard Chart of Accounts financial data for 241 of 693 DoD reporting accounts; or
    - establish the system's capability to generate EBS trial balance data and report it to DDRS.

  As a result, DoD managers approved EBS funding and required SFIS implementation before they developed and deployed additional EBS capabilities, which could have ensured the reporting of proper financial data.

[10] This report was the opinion report for the FY 2014 DoD Agency-wide financial statement audit and did not provide specific examples of unsupported amounts.

[11] The Appropriation Status Report is a report used to manage and report on Army budget execution.

Material Weakness 2. Fund Balance With Treasury

Criteria

Statement of Federal Financial Accounting Standards (SFFAS) No. 1,[12] and DoD Regulation 7000.14-R, "DoD Financial Management Regulation," (DoD FMR)[13] require DoD to resolve financial and accounting inconsistencies to accurately report Fund Balance with Treasury (FBWT) in the financial statements.

Results

The DoD OIG issued 33 reports that discussed deficiencies in DoD FBWT. DoD continues to have inconsistencies related to in-transit disbursements,[14] unmatched disbursements,[15] negative unliquidated obligations,[16] and unreconciled differences between U.S. Treasury records and DoD accounting records. Of the 131 open recommendations, 8 pertained to DoD FBWT. The following are examples of reports that discussed FBWT deficiencies.

- Report No. DODIG-2015-038 stated that the Deputy Assistant Secretary of the Army (Financial Operations) and DFAS Indianapolis did not design and implement the Army's FBWT Tool and corresponding processes to effectively reconcile the Army's FBWT account balance. As of May 31, 2014, the Army could not use its FBWT Tool to support its reconciliation of $173 billion (57 percent) of its FBWT net outlays[17] at the transaction level. Until the Army and DFAS redesign the FBWT reconciliation process to fully integrate the Army FBWT Tool and effectively reconcile the Army FBWT account, the Army is at risk that it will not resolve its longstanding FBWT material weakness.
- Report No. DODIG-2012-107 identified that DFAS Indianapolis did not perform adequate, transaction-level FBWT reconciliations on 723 Other Defense Organizations appropriations with disbursements and collections, totaling approximately $141 billion. Without a transaction-level FBWT reconciliation, DFAS Indianapolis could not support the adjustments it made to these FBWT accounts, which caused unreliable data to be reported on the Other Defense Organizations financial statements. Unreliable Other Defense Organizations financial statements will impede DoD's ability to achieve audit readiness by FY 2017.

[12] SFFAS No. 1, "Accounting for Selected Assets and Liabilities."

[13] DoD FMR, Volume 4, Chapter 2, "Accounting for Cash and Fund Balance With Treasury."

[14] An in-transit disbursement is a disbursement that DoD has reported to the U.S. Treasury, but either has not been received or processed by an accounting office.

[15] An unmatched disbursement is a disbursement that has been received and accepted by the accounting office, but has not been matched to the correct obligation.

[16] A negative unliquidated obligation occurs when the total disbursement(s) exceed the amount of the obligation.

[17] Net outlays are disbursements minus reimbursements collected.

Material Weakness 3. Accounts Receivable

Criteria

According to SFFAS No. 1, Federal entities should recognize a receivable in its accounting records when they establish a claim to cash or other assets against other entities, based on either legal provisions or goods and services provided.

Results

The DoD OIG issued 34 reports that discussed deficiencies in DoD accounts receivable. DoD acknowledged that it could not accurately record, report, collect, and reconcile intragovernmental accounts receivable,[18] as well as accounts receivable from the public. Of the 131 open recommendations, none pertained to DoD accounts receivable.[19] The following is an example of a report that discussed an accounts receivable deficiency.

- Report No. DODIG-2014-068 stated that Air Force managers did not implement controls to reconcile the general and subsidiary ledgers, which resulted in an approximately $14 million difference between the ledgers for the accounts receivable account in fourth quarter FY 2012. If control weaknesses are not identified and corrective actions not implemented, these data inaccuracies could increase significantly and cause the Air Force to not meet its 2017 auditability mandate.

Material Weakness 4. Inventory

Criteria

SFFAS No. 3[20] requires DoD to use historical cost, the latest acquisition cost (adjusted for holding gains and losses), or moving average cost to value inventory.

Results

The DoD OIG issued 33 reports that discussed deficiencies in DoD inventory. DoD acknowledged that the existing inventory value for most activities was not reported in accordance with GAAP, and the Department's legacy systems do not maintain the historical cost data necessary to comply with SFFAS No. 3. Additionally, DoD did not distinguish between Inventory Held for Sale as required. Of the 131 open recommendations, 2 pertained to DoD inventory. The following are examples of reports that discussed inventory deficiencies.

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[18] An intragovernmental accounts receivable is the amount due from a governmental unit to another governmental unit.

[19] Although no specific recommendations remain open, DoD still acknowledges that accounts receivable is a material weakness. Hereafter in the report, we have identified other longstanding material weaknesses that do not have any open recommendations but DoD has acknowledged that the material weaknesses still exist.

[20] SFFAS No. 3, "Accounting for Inventory and Related Property."

- Report No. DODIG-2013-025 identified that officials in the Project Management Office (PMO) for the Stryker vehicle did not properly account for Government property procured on the cost-reimbursable services contract for logistics support of Stryker vehicles. Stryker inventory was not properly accounted for because PMO officials inappropriately treated the inventory as contractor-acquired property, while General Dynamics considered the inventory as Government property once delivered to the warehouse. Consequently, neither the PMO nor General Dynamics accounted for the Stryker inventory of 19,365 spare and repair parts (valued at $892.3 million) in appropriate property management systems. As a result of incorrectly classifying Stryker inventory as contractor-acquired property, the PMO did not:
    - comply with the multiple DoD and Army property regulations designed to provide good stewardship and fiduciary responsibility over Government property;
    - support the Army goal of creating audit-ready financial statements; and,
    - correctly use the Army's system designed to integrate logistics and financial operations.

  Consequently, the Stryker inventory was not reported on either the contractor's or the Army's financial statements, resulting in no visibility of the Army assets (parts and value).

- Report No. DODIG-2013-018 identified that Military Department acquisition and logistics personnel did not properly account for 75,727 Defense Advanced Global Positioning System Receivers (DAGR), valued at $114.8 million that were stored at a contractor's warehouse. As a result, the DoD ability to effectively and efficiently manage inventory and provide optimal support to the warfighter was limited because the Accountable Property System of Record did not show the DAGRs stored in Customer-Owned Property Systems as readily available. In addition, none of the 75,727 DAGRs stored in the Customer-Owned Property Systems were recorded in the Military Departments' property accountability systems. The Military Departments' failure to record DAGRs in the Appropriate Accountable Property System of Record limited DoD's ability to effectively and efficiently manage inventory and provide optimal support to the warfighter.

Material Weakness 5. Operating Materials and Supplies

Criteria

SFFAS No. 3 states that Operating Materials and Supplies (OM&S) must be expensed when the items are consumed.

Results

The DoD OIG issued 32 reports that discussed deficiencies in DoD OM&S. DoD acknowledged that significant amounts of OM&S were expensed when purchased instead of when consumed. Therefore, DoD is over reporting expenses and under reporting assets. As a result, DoD could not accurately report the value of OM&S, which allowed for the potential misstatements in its financial reporting. Of the 131 open recommendations, none pertained to DoD OM&S. The following is an example of a report that discussed OM&S deficiencies.

- Report No. DODIG-2013-076 identified that the Army did not accurately report 3,493 missiles classified as material-in-transit (MIT) at a detailed level because of system limitations. MIT was reported at the summary level and Army officials could not provide a serialized list of MIT, as of September 30, 2012. As a result, the DoD OIG could not perform existence, completeness, and rights testing on MIT. Consequently, we could not attest to the accuracy of MIT.

Material Weakness 6. General Property, Plant, and Equipment

Criteria

SFFAS No. 6[21] requires DoD to record General Property, Plant, and Equipment (PP&E) at acquisition cost and to recognize depreciation expense.

Results

The DoD OIG issued 43 reports that discussed deficiencies in DoD's General PP&E. DoD acknowledged that it did not meet GAAP for the financial reporting of personal property, and the documentation for personal property was neither accurate nor reliable. In addition, DoD did not have adequate internal controls in place to provide reasonable assurance that real property assets were identified and properly reported in its financial reports. DoD also acknowledged that its inability to accurately report the value of military equipment increased the risk that the financial statements were materially misstated. Of the 131 open recommendations, 6 pertained to DoD's General PP&E. The following are examples of reports that discussed General PP&E deficiencies.

[21] SFFAS No. 6, "Accounting for Property, Plant, and Equipment."

- Report No. DODIG-2013-130 identified that the Army's controls over the recording of accounting transactions for the Acquire-to-Retire[22] business process in GFEBS were inadequate. Specifically, the Army did not:
    - ensure real property personnel could use GFEBS efficiently and effectively to perform their day-to-day responsibilities related to the management of 13,427 buildings and structures.
    - use GFEBS to record the $10 billion of construction-in-progress costs reported in the FY 2012 Army General Fund financial statements.

  Unless the issues identified are corrected, the Army will not meet GFEBS program objectives to provide Army decision makers with relevant and reliable financial information and standardized business processes for real property. In addition, the Army is at an increased risk that it will not accomplish its goal of full financial statement audit readiness by FY 2017.
- Report No. DODIG-2013-105 identified that Navy Financial Operations officials did not use the Navy Enterprise Resource Planning system to support $416 billion in military equipment assets reported out of the DDRS-Audited Financial Statements. As a result, Navy officials spent $870 million to implement the Navy Enterprise Resource Planning system and still did not correct the material weakness on military equipment that preexisted. In addition, the Navy's unauditable military equipment assets increased the risk that DoD will not achieve its goal of audit readiness by FY 2017.

Material Weakness 7. Government Property In Possession of Contractors

Criteria

SFFAS No. 6 states that PP&E acquired by a contractor on behalf of the entity (for example, the entity will ultimately hold title to the PP&E) shall also be recognized upon delivery or constructive delivery,[23] whether to the contractor for use in performing contract services or to the entity.

Results

The DoD OIG issued 13 reports that discussed deficiencies in DoD government property in possession of contractors. DoD acknowledged that it could not comply with these requirements for government property in possession of contractors. As a result, the value of DoD property and material in possession of contractors was

[22] Acquire-to-Retire encompasses all business functions necessary to obtain, manage, and dispose of accountable and reportable property through its entire life cycle.

[23] Constructive delivery is property that has been recognized by the receiving party, but delivery has not occurred.

not reliably reported. Of the 131 open recommendations, none pertained to DoD government property in possession of contractors. The following are examples of reports related to government property in possession of contractors.

- Report No. DODIG-2015-033 identified that in the FY 2014 DoD Agency Financial Report, the Army reported that it could not comply with SFFAS No. 6 requirements for government property in possession of contractors. As a result, the value of DoD property and material in possession of contractors was not reliably reported. Consequently, the DoD OIG could not obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Therefore, the basic financial statements may have undetected misstatements that were both material and pervasive.
- Report No. DODIG-2015-025 identified that in the FY 2014 U.S. Air Force Agency Financial Report, the Air Force reported the value of the Air Force Working Capital Fund government property in possession of contractors may not be accurately reported. Specifically, the Air Force acknowledged that its balance did not include the cost of all Government-furnished material in possession of contractors where such value exceeds the capitalization threshold. As a result, the Air Force did not reliably report the value of its property and material in possession of contractors.

Material Weakness 8. Accounts Payable

Criteria

SFFAS No. 5[24] states an entity recognizes a liability when one party receives goods or services in return for a promise to provide money or other resources in the future.

Results

The DoD OIG issued 40 reports that discussed deficiencies in DoD accounts payable. DoD acknowledged that it did not meet accounting standards for the financial reporting of public accounts payable. DoD could not support its accounts payable balances because it lacked standard procedures to record, report, and reconcile the amounts between the financial, accounting, and reporting systems. Of the 131 open recommendations, 4 pertained to DoD accounts payable. The following are examples of reports that discussed accounts payable deficiencies.

- Report No. DODIG-2013-010 identified that the Air Force could not ensure the accuracy of accounts payable reported in the basic financial statements because of significant deficiencies in intragovernmental

[24] SFFAS No. 5, "Accounting for Liabilities of the Federal Government."

trading partner eliminations,[25] accruals, supporting documentation, and the completeness of the Triannual Review. A Triannual Review is an internal control practice used to assess whether obligations recorded are bona fide (valid) needs of the appropriations charged. Because of these weaknesses, the Air Force could not properly reconcile and support the validity of their accounts payable amount in its financial statements. Therefore, the DoD OIG could not express, and did not express, an opinion on the basic financial statements.

- Report No. DODIG-2012-066 states that Army representatives acknowledged that they could not properly account for and report accounts payable. Army accounting systems did not capture transaction-level data to accurately report intra-agency sales. Therefore, the Army could not reconcile intragovernmental accounts payable to the related intragovernmental accounts receivable that generated the payable.

Material Weakness 9. Environmental Liabilities

Criteria

The DoD FMR[26] requires that environmental liabilities be recognized on the financial statements for probable and measurable expenditures of resources for environmental cleanup, closure, and disposal actions. The DoD FMR also states that environmental liabilities are generally accounting estimates because the extent of the costs cannot be determined until completing cleanup or disposal operations, or both. Additionally, the organizations that prepare the estimates must retain adequate documentation of quality review, estimator and reviewer qualifications, data sources, estimate methodologies, and accreditation including the parametric models[27] and internal control procedures.

Results

The DoD OIG issued 20 reports that discussed deficiencies in DoD environmental liabilities. DoD acknowledged that its internal controls to report environmental liabilities did not provide reasonable assurance that cleanup costs for all of its ongoing, inactive, closed, and disposal operations were identified, consistently estimated, and appropriately reported. In addition, guidance and audit trails

[25] An Intragovernmental trading partner elimination occurs when a defense agency sells goods or services to another defense agency. The selling defense agency eliminates the sale amount from its account receivable and revenue accounts, and the buying defense agency eliminates the purchase amount from its account payable and expense accounts.

[26] DoD FMR, Volume 4, Chapter 13, "Environmental Liabilities."

[27] A parametric model is a method of estimating environmental liabilities that is based on different variable measureable properties.

that estimate environmental liabilities were insufficient, and the inventory of ranges and operational activities was incomplete. DoD also acknowledged it was uncertain of the accuracy of the accounting estimates used to calculate the reported environmental liabilities. Of the 131 open recommendations, none pertained to DoD environmental liabilities. The following are examples of reports that discussed environmental liabilities deficiencies.

- Report No. DODIG-2015-023 identified that the Army did not properly estimate and report its environmental liabilities. For example, the processes used to report environmental liabilities for the Defense Environmental Restoration Program, Base Realignment and Closure, and the non-Defense Environmental Restoration Program on the basic financial statements were not adequate to establish or maintain sufficient documentation and audit trails. As a result, the DoD OIG could not obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Therefore, the basic financial statements may have undetected misstatements that were both material and pervasive.
- Report No. DODIG-2014-016 identified that the Air Force could not support its environmental clean-up cost estimates as recorded in the Air Force Real Property Agency management information system. Therefore, the system provided unsupported cost information for reporting in the annual financial statements. As a result, the DoD OIG could not obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Therefore, the basic financial statements may have undetected misstatements that were both material and pervasive.

Material Weakness 10. Statement of Net Cost

Criteria

Statement of Federal Financial Accounting Concept No. 2, "Entity and Display," requires the Statement of Net Cost to understand the net costs of each organization and each program. In addition, the Statement of Net Cost is to provides gross and net cost information that can be related to the amounts of outputs and outcomes for the programs and organizations.

Results

The DoD OIG issued 27 reports that discussed deficiencies in the DoD Statement of Net Cost. Of the 131 open recommendations, 1 pertained to the DoD Statement of Net Cost. The following are examples of reports that discussed Statement of Net Cost deficiencies.

- Report No. DODIG-2015-033 identified that DoD had the following deficiencies related to the Statement of Net Cost.
    - The amounts presented for General Funds on the Statement of Net Cost may not report actual accrued costs.
    - The funds were generally recorded on an accrual basis for Working Capital Funds but the systems did not always capture actual costs on time.
    - The Statement of Net Cost was not presented by programs that align with major goals and outputs described in the DoD strategic and performance plans as required by the Government Performance and Results Act.
    - Revenues and expenses were reported by appropriation categories because financial processes and systems did not collect costs in accordance with performance measures.

  As a result, the DoD OIG could not obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Therefore, the basic financial statements may have undetected misstatements that were both material and pervasive.
- Report No. DODIG-2012-066 identified that the financial information contained in the Army's Statement of Net Cost was not presented by programs that align with major goals and outputs described in DoD's strategic and performance plans as required by the Government Performance and Results Act. In addition, the amounts presented in the Army's Statement of Net Cost were based on funding, obligation, and disbursing transactions, which were not always recorded using accrual accounting. Additionally, Army systems did not always record the transaction on an accrual basis as required by GAAP. As a result, one of the systems did not provide the Army with required financial information despite costing the Army $630.4 million as of October 2011. Therefore, the Army may need to spend more funds than originally budgeted for the system to produce auditable financial statements and provide decision makers with accurate and reliable financial information.

Material Weakness 11. Intragovernmental Eliminations

Criteria

SFFAS No. 4[28] states that inter-entity[29] expenses and assets and financing sources[30] should be eliminated for any consolidated financial statements covering both entities. Further, the DoD FMR[31] states that all DoD reporting entities are required to report intragovernmental account balances in their financial statements and eliminate appropriate intragovernmental balances. Additionally, the DoD FMR states to base eliminating entries on the information provided by the seller or service provider unless a waiver is obtained. The DoD FMR further states that the purpose of eliminating intragovernmental transactions (IGTs) is to offset the effect of IGTs between DoD reporting entities and other Federal organizations, between different DoD reporting entities, and between organizations within a DoD reporting entity.

Results

The DoD OIG issued 33 reports that discussed deficiencies in DoD IGTs. DoD disclosed that it could not accurately identify most of its IGTs by customer because its systems did not track the buyer and seller data needed to match related transactions. In addition, DoD could not fully reconcile IGTs with all Federal partners. DoD acknowledged that its inability to reconcile most IGTs resulted in adjustments to DoD financial statements that could not be fully supported. Of the 131 open recommendations, 3 pertained to DoD IGTs. The following are examples of reports that discussed intragovernmental eliminations deficiencies.

- Report No. DODIG-2015-056 identified that DoD continued to lack the systems or procedures to properly eliminate IGTs from the FY 2013 DoD Agency-wide basic financial statements. DoD acknowledged that inaccurate and unsupported intragovernmental account balances continue to be one of the long-standing material control weaknesses that prevent DoD from achieving audit readiness on the DoD Agency-wide basic financial statements. As a result, intragovernmental account balances reported on the FY 2013 DoD Agency-wide basic financial statements were not accurate and supported.

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[28] SFFAS No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government."

[29] Inter-entity is a term that means between or among different federal reporting entities. It commonly refers to activities or costs between two or more agencies, departments, or bureaus.

[30] DoD receives Congressional appropriations as financing sources.

[31] DoD FMR, Volume 6B, Chapter 13, "Adjustments, Eliminations, and Other Special Intragovernmental Reconciliation Procedures."

- Report No. DODIG-2014-104 identified that the Army and Program Management Office personnel did not ensure that the Global Combat Support System–Army complied with Treasury guidance for 5 of 15 account attributes tested. The five noncompliant account attributes represented approximately 1.6 million unpopulated attributes on transactions with approximately $1.8 billion of financial impact. For example, the Global Combat Support System–Army "Federal Indicator" account attribute was not compliant with Treasury guidance to ensure the accurate reporting of trading partner information for transactions that occur between two parties within the Government. This has been a long-standing material weakness reported in the Army Annual Statement of Assurance. As a result, Army spent $725.7 million on a system that still has significant obstacles to overcome to comply with guidance and meet the FY 2017 auditability deadline.

Material Weakness 12. Other Accounting Entries

Criteria

DoD FMR[32] states that DFAS and DoD Components are required to support accounting adjustments by written documentation with sufficient detail to provide an audit trail to source transactions. This documentation will contain the rationale and justification for the adjustment, detailed numbers and dollar amounts of errors or conditions that relate to the transactions or records that are proposed for adjustment, date of the adjustment, and name and position of the individual approving the adjustment.

Results

The DoD OIG issued 44 reports that discussed deficiencies in DoD accounting entries. DoD acknowledged that it continued to enter material amounts of unsupported accounting entries in its financial management systems because of inadequacies in the systems. The unsupported accounting entries presented a material uncertainty regarding the reliability of the financial statements. Of the 131 open recommendations, 32 pertained to DoD accounting entries. The following are examples of reports that discussed other accounting entry deficiencies.

- Report No. DODIG-2015-010 identified that the EBS PMO did not consistently use the DoD Transaction Library to record transactions within EBS. The DoD Transaction Library breaks down the generalized U.S. Standard General Ledger transaction postings, which contain multiple debits and credits, into appropriate pairings of debits and credits of

[32] DoD FMR, Volume 6A, Chapter 2, "Financial Roles and Responsibilities."

budgetary, proprietary, and memorandum accounts. Although EBS had the capability to perform the transaction postings established within the DoD Transaction Library, the Defense Logistics Agency (DLA) did not always use the transactions to post Procure-to-Pay[33] transactions. Specifically, DLA included 67 Procure-to-Pay transactions as part of the EBS posting logic that were not included in the DoD Transaction Library. As of September 30, 2013, DLA activities reported approximately $942.2 million in abnormal balances[34] within the unadjusted trial balances in general ledger accounts that supported the Procure-to-Pay business process. As a result, DLA financial managers could not rely on EBS trial balance data to prepare its financial statements. Therefore, to prepare financial statements at fiscal year-end, DFAS Columbus personnel prepared 277 journal vouchers to correct a variety of errors with the Procure-to-Pay business process, totaling approximately $95.6 billion.

- Report No. DODIG-2012-027 identified that DFAS Columbus accountants made forced journal voucher adjustments[35] for FY 2009 that lacked sufficient and appropriate documentation. Specifically, DFAS Columbus officials prepared:
    - 8 journal vouchers, with a value of $85.9 million, to adjust the reimbursable obligations amount on the Statement of Budgetary Resources to match the reimbursable authority amount on the Statement of Budgetary Resources;
    - 2 journal vouchers, with a value of $316 million, to adjust the total unexpended funds amount on the Statement of Budgetary Resources to match the unexpended appropriations amount on the balance sheet.

As a result, unsupported accounting adjustments could negatively affect the accuracy of the Air Force FY 2009 financial statements and budget reports. If the auditability of these journal vouchers is not improved, DFAS Columbus will continue to cast doubt on the reliability of future financial statements and budget reports. The forced accounting adjustments also impeded DoD progress toward auditable financial statements, financial process improvement, and compliance with GAAP.

[33] The Procure-to-Pay process encompasses the initial request for goods or services through the payment for those goods and services.

[34] An abnormal balance is a balance reported in a general ledger account that is different from the expected normal balance for that account as defined in the chart of accounts. An example of this would be an asset account such as accounts receivable with a credit balance or a liability account such as accounts payable with a debit balance.

[35] An adjustment that forces agreement of general ledger balances to another accounting source without determining the transactional causes of the difference between the balances and without determining if either is correct.

Material Weakness 13. Reconciliation of Net Cost of Operations to Budget

Criteria

SFFAS No. 7[36] requires a reconciliation of proprietary and budgetary information to assist users in understanding the relationship between the net cost of operations and the budgetary resources obligated by the entity during the period. The DoD FMR[37] states that the Reconciliation of Net Cost of Operations to Budget is the mechanism to accomplish this reconciliation. The objective of the Reconciliation of Net Cost of Operations to Budget is to help the users understand how information on the use of budgetary resources relates to information on the cost of program operations. This information is reported in the DoD financial statements as Note 21, "Disclosures Related to the Reconciliation of Net Cost of Operations to Budget."

Results

The DoD OIG issued 24 reports that discussed deficiencies in DoD reconciliation of net cost of operations to the budgetary resources obligated by the entity. DoD acknowledged that it could not reconcile net cost to budgetary obligations without making unsupported adjustments in Note 21. Of the 131 open recommendations, none pertained to DoD reconciliation of net cost of operations to budget. The following is an example of a report that discussed reconciliation of net cost of operations to budget deficiencies.

- Report No. DODIG-2015-022 stated that the Army could not reconcile to the Army Working Capital Fund Statement of Net Cost without preparing $675.3 million in unsupported adjustments to the general ledger accounts to force costs to match obligation information. As a result, the DoD OIG could not obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Therefore, the basic financial statements may have undetected misstatements that were both material and pervasive.

[36] SFFAS No. 7, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting."

[37] DoD FMR, Volume 6b, Chapter 10, "Notes to the Financial Statements."

Other Areas of Concern

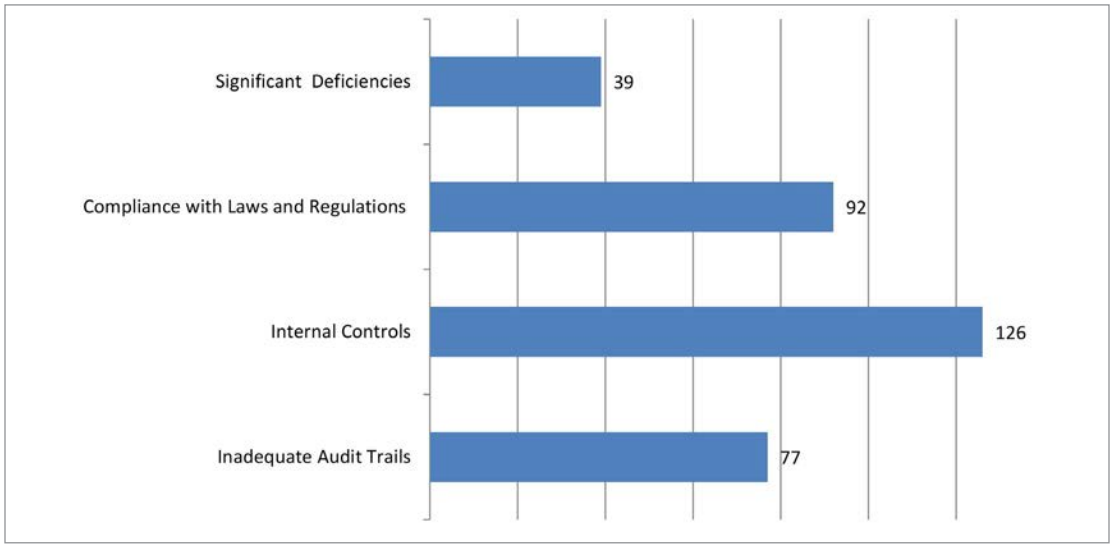
Other Area of Concern 1. Significant Deficiencies

Criteria

Statement of Auditing Standards No. 115 defines a significant deficiency as a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

The following chart shows the number of DoD OIG reports that addressed each of the four other areas of concern on DoD financial management that were identified in 138 DoD OIG audit reports issued from October 1, 2011, through December 31, 2014.

Chart 2. Number of DoD OIG Reports that Addressed Each Other Area of Concern



If we identified a significant deficiency that DoD already established as one of the 13 material weaknesses, we captured the deficiency as a material weakness. Conversely, if we identified a material weakness within a report that DoD did not identify as one of the 13 material weaknesses, we captured the weakness as an "other significant deficiency," and summarized it under "significant deficiencies."

Results

The DoD OIG issued 39 reports that discussed significant deficiencies. Of the 131 open recommendations, 2 pertained to DoD significant deficiencies. The following are examples of reports that discussed significant deficiencies.

- Report No. DODIG-2013-013 identified that the Army legal representation process did not provide meaningful assessments of potential liabilities and was not linked to the Army process that reported and disclosed contingent legal liabilities on the financial statements. This financial management deficiency may have caused inaccurate management information. As a result, the Army's General Fund management decisions based in whole or in part on this information may be adversely affected. DoD financial information may also contain misstatements resulting from this deficiency.
- Report No. DODIG-2012-014 stated that deficiencies exist in recorded unobligated amounts because Navy's financial systems were not fully integrated, and not all Navy commands sufficiently review unliquidated obligations. Additionally, reimbursable transactions were not properly documented or reported on the Navy's Disbursing Officer's Statement of Accountability.[38] These financial management deficiencies may cause inaccurate management information. As a result, Navy's management decisions that were based in whole or in part on this information may be adversely affected. DoD financial information may also contain misstatements resulting from these deficiencies.

Other Area of Concern 2. Compliance with Laws and Regulations

Results

The DoD OIG issued 92 reports that discussed deficiencies regarding compliance with DoD laws and regulations. Of the 131 open recommendations, 63 pertained to DoD compliance with laws and regulations. The following are examples of reports that discussed compliance with laws and regulations deficiencies.

- Report No. DoDIG-2013-077 identified that the Navy did not establish which organizations, offices, and personnel were required to identify and report improper payments. Because of unidentified and unreported improper payments, the improper payment reports for the Navy and DoD were understated. Since the Navy did not identify or report improper payments, it did not comply with Improper Payments Elimination and Recovery Act of 2010 and DoD FMR reporting requirements. As a result, the risk of additional unreported improper payments was increased.

[38] A Disbursing Officer's Statement of Accountability is a document that reports the amount of cash disbursing officers are accountable for in their vault or safe.

- Report No. DoDIG-2012-118 identified that DFAS officials did not comply with the Federal Financial Management Improvement Act (FFMIA) of 1996, as it related to the Defense Civilian Payroll System (DCPS). Specifically, DFAS officials did not perform annual or complete self assessments on DCPS to determine FFMIA compliance and did not develop a remediation plan to address requirements not met by DCPS. DCPS is the payroll system for 5 of the 24 agencies subject to the CFO Act. DCPS also supports an additional nine DoD financial statements required by the Office of Management and Budget. Systems that do not comply with FFMIA requirements restrict the ability of organizations to consistently and accurately record the assets, liabilities, revenues, expenses, and the full costs of programs and activities of the Federal Government.

Other Area of Concern 3. Internal Controls

Criteria

DoD Instruction 5010.40[39] 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.

Results

The DoD OIG issued 126 reports that discussed internal control deficiencies. Of the 131 open recommendations, all 131 recommendations pertained to DoD internal control deficiencies. The following are examples of reports that discussed internal controls deficiencies.

- Report No. DODIG-2014-068 identified that managers at the Office of the Secretary of the Air Force for Financial Management and Comptroller, Defense Enterprise Accounting Management System (DEAMS) Program Management Office, and DEAMS Functional Management Office (hereafter referred to as Air Force managers) did not implement adequate controls over recording financial transactions within the DEAMS Order-to-Cash[40] business process. Specifically, Air Force managers did not include controls to reconcile general and subsidiary ledgers or make corrections to the categories of Transportation Working Capital Fund transactions that were incorrectly created by other accounting sites. As a result, in FY 2012, 11 accounts associated with the DEAMS Order-to-Cash business process produced about $2.8 billion of abnormal balances while processing data for only one location. As DEAMS deploys to additional locations,

[39] DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013.

[40] Order-to-Cash encompasses all business functions necessary to accept and process customer orders for services or inventory held for sale.

data inaccuracies could grow significantly if site-specific process weaknesses and functional gaps are not identified and resolved, which would likely hinder the Air Force from using DEAMS to meet its FY 2017 auditability requirement.

- Report No. DODIG-2013-057 identified internal control weaknesses in the implementation of U.S. standard general ledger and SFIS requirements in the EBS. Specifically, the EBS program managers did not properly implement the DoD Standard Chart of Accounts and the SFIS business rules, posting logic, and attributes needed for financial reporting. As a result, DoD managers approved EBS funding and required SFIS implementation before they developed and deployed additional EBS capabilities that could have ensured the reporting of proper financial data. For example, as of September 30, 2012, DLA obligated more than $2 billion to develop and deploy EBS without demonstrating that the system had the general ledger capability to provide the data necessary to produce an auditable Statement of Budgetary Resources by FY 2014.

Other Area of Concern 4. Inadequate Audit Trails

Criteria

DoD FMR[41] requires DoD Components to ensure that audit trails are maintained in sufficient detail to permit tracing of transactions from their sources to their transmission to DFAS. The DoD FMR states that audit trails are necessary to demonstrate the accuracy, completeness, and timeliness of a transaction. Additionally, audit trails provide documentary support for all data generated by the DoD Component in their Enterprise Resource Planning system or submitted to DFAS.

Results

The DoD OIG issued 77 reports that discussed deficiencies in DoD audit trails. Of the 131 open recommendations, 39 pertained to deficiencies in DoD audit trails. The following report example discusses two instances of inadequate audit trails.

- Report No. DODIG-2014-087 identified that the Army's Appropriation Status Report was not reliable for a nonstatistical sample of data reviewed from the December 2012 report. Specifically:
    - 30 material differences existed between what DFAS Indianapolis officially reported from GFEBS in December 2012 and the audit team's recalculation of 180 values in a review of Appropriation

[41] DoD FMR, Volume 6A, Chapter 2, "Financial Roles and Responsibilities."

Status Report data. The absolute value[42] of the differences totaled $662 million. Army personnel did not support most of the sampled GFEBS financial transactions. Of the 34 financial transactions for which the audit team requested supporting documents from a review of budget line items, Army personnel supported only 6 of the associated financial transactions.

- DFAS Indianapolis did not properly support sampled journal vouchers prepared within DDRS-Budgetary and other systems in the preparation of the Appropriation Status Report. Of the 15 journal vouchers reviewed, 14 vouchers, totaling $83.9 billion, did not contain supporting documentation to explain why the adjustments needed to be made.

- Report No. DoDIG-2014-087 stated that 30 material differences existed between what DFAS Indianapolis officially reported from GFEBS in December 2012 and the audit team's recalculation of 180 values in a review of Appropriation Status Report data. The absolute value of the differences totaled $662 million. This occurred because DFAS Indianapolis was not able to provide the documentation for portions of the audit trail embedded within DDRS-Budgetary that were necessary for an independent recalculation of the reported values. As a result, users may not be able to depend upon budgetary reports for decision making or performance evaluation.

[42] The absolute value is the extent of a real number without regard to whether it is positive or negative.

Appendix A

Scope and Methodology

We conducted this performance audit from February 2015 through July 2015. We followed generally accepted government auditing standards, except for the standards of planning and evidence because this report summarizes previously released reports. We believe the information obtained provides a reasonable basis for our conclusions based on the project objectives.

This report summarizes 138 final audit reports issued by the DoD OIG from October 1, 2011, through December 31, 2014. Based on the audit objectives, scope, and conclusions, these 138 reports discussed weaknesses that pertain to DoD financial management. We reviewed the findings, conclusions, and recommendations contained in these 138 reports; however, we did not review the supporting documentation from any of these reports. We grouped the deficiencies discussed in the reports by the 13 previously identified material weaknesses, listed below.

1. Financial Management Systems
2. Fund Balance with Treasury
3. Accounts Receivable
4. Inventory
5. Operating Materials and Supplies
6. General Property, Plant, and Equipment
7. Government Property in Possession of Contractors
8. Accounts Payable
9. Environmental Liabilities
10. Statement of Net Cost
11. Intragovernmental Eliminations
12. Accounting Entries
13. Reconciliation of Net Cost of Operations to Budget

In addition to the 13 material weaknesses, we also reported on four other audit concerns, listed below.

1. Significant Deficiencies
2. Compliance with Laws and Regulation
3. Internal Controls
4. Inadequate Audit Trails

We reviewed 138 DoD OIG financial management related reports issued from October 1, 2011, to December 31, 2014, and identified a total of 668 recommendations contained in the reports. We then used a report generated from the DoD OIG Defense Audit Management Information System to determine there were 131 open recommendations. To determine the number of closed recommendations, we subtracted the 131 open recommendations from the 668 total recommendations, which resulted in 537 closed recommendations.

Use of Computer-Processed Data

We did not use computer-processed data to perform this review.

Prior Coverage

During the last 5 years, the DoD OIG did not issue any summary reports on financial management.

Appendix B

CFO Act and OMB Required Audits

The CFO Act, as amended by Government Management Reform Act of 1994, requires major agencies of the Federal Government to prepare and submit audited financial statements. In addition, there are entities within DoD that are required by OMB to prepare stand-alone audited financial statements.[43] The Table shows the nine DoD reporting entities required to provide annual audited financial statements.

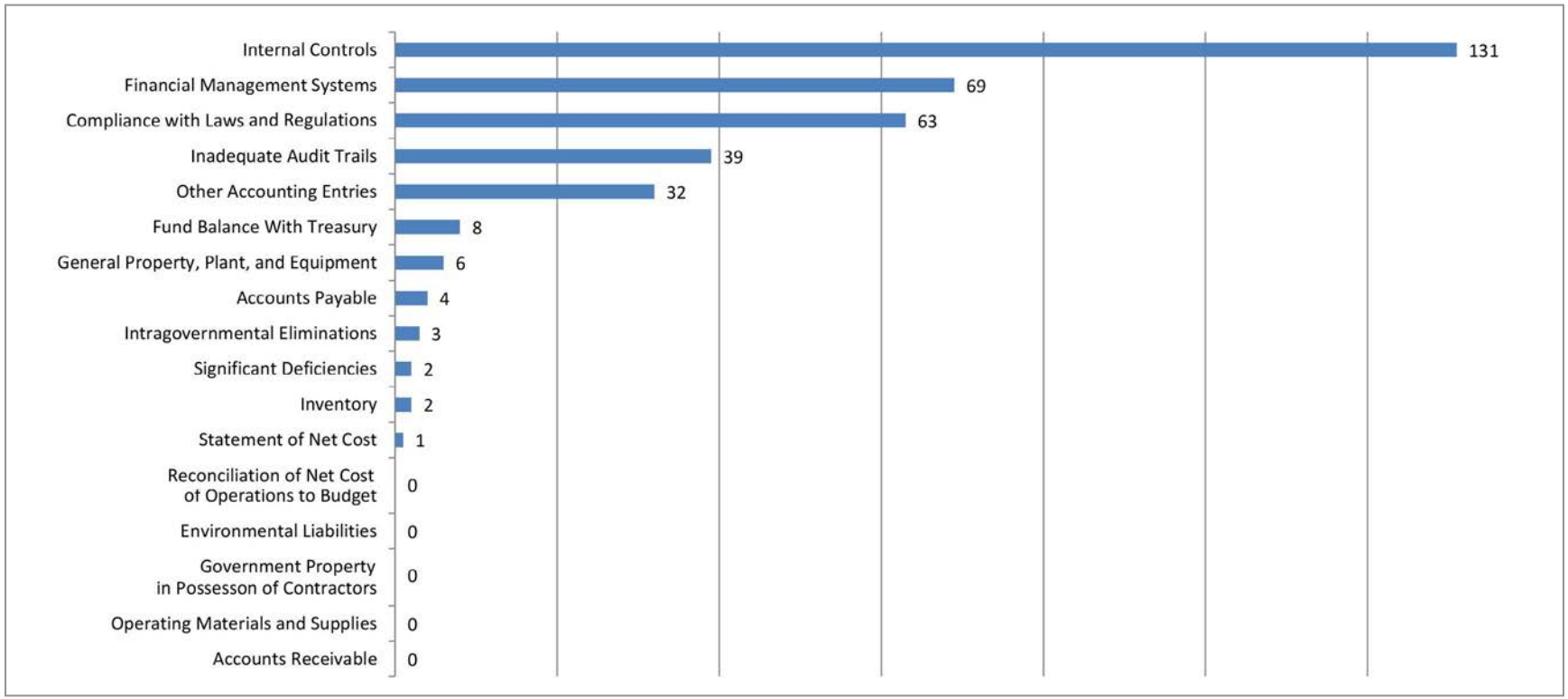
Financial Statement Reporting Entity	Audit Required by
1. Defense Agency Wide	CFO Act
2. Army General Fund	OMB
3. Army Working Capital Fund	OMB
4. Navy General Fund	OMB
5. Navy Working Capital Fund	OMB
6. Air Force General Fund	OMB
7. Air Force Working Capital Fund	OMB
8. Military Retirement Fund	OMB
9. U.S. Army Corps of Engineers	OMB

[43] These stand-alone audited financial statements are also included in the DoD Agency-wide financial statements.

Appendix C

Open Recommendations by Material Weakness and Other Area of Concern as of March 3, 2015

As of March 3, 2015, DoD had 131 open recommendations for reports on DoD financial management. The following chart shows the number of open recommendations for each of the DoD financial management material weaknesses and the other areas of concern.[44]



The open recommendations related to internal controls, financial management systems, compliance with laws and regulations, and audit trails pose the biggest challenge to DoD in achieving audit readiness.

[44] An open recommendation could pertain to one or more material weakness and other area of concern.

Appendix D

Status of Report Recommendations

The DoD OIG issued 138 audit reports from October 1, 2011, through December 31, 2014, that discussed material weaknesses and other areas of concern pertaining to DoD financial management. Of the 138 audit reports, 75 audit reports contained 668 recommendations. The Table shows the status of the recommendations by report number. As of March 3, 2015, DoD took corrective action in response to 537 of the 668 recommendations. However, 131 recommendations remain open.

	Report Number	Recommendations Made	Recommendations Open	Recommendations Closed
1	DODIG-2012-008	6	0	6
2	DODIG-2012-017	20	2	18
3	DODIG-2012-020	20	0	20
4	DODIG-2012-023	11	0	11
5	DODIG-2012-027	11	0	11
6	DODIG-2012-032	1	0	1
7	DODIG-2012-035	8	0	8
8	DODIG-2012-043	7	0	7
9	DODIG-2012-051	10	0	10
10	DODIG-2012-058	11	0	11
11	DODIG-2012-066	6	1	5
12	DODIG-2012-069	6	0	6
13	DODIG-2012-082	5	2	3
14	DODIG-2012-087	31	6	25
15	DODIG-2012-096	12	0	12
16	DODIG-2012-107	4	3	1
17	DODIG-2012-108	11	0	11
18	DODIG-2012-111	4	0	4
19	DODIG-2012-117	22	2	20
20	DODIG-2012-118	3	0	3
21	DODIG-2012-130	5	0	5
22	DODIG-2012-131	6	0	6
23	DODIG-2012-140	4	0	4

Status of Report Recommendations (cont'd)

	Report Number	Recommendations Made	Recommendations Open	Recommendations Closed
24	DODIG-2013-008	13	0	13
25	DODIG-2013-016	2	0	2
26	DODIG-2013-018	4	0	4
27	DODIG-2013-023	15	0	15
28	DODIG-2013-025	13	0	13
29	DODIG-2013-027	5	0	5
30	DODIG-2013-028	4	0	4
31	DODIG-2013-045	3	0	3
32	DODIG-2013-046	3	0	3
33	DODIG-2013-050	4	0	4
34	DODIG-2013-051	17	2	15
35	DODIG-2013-054	2	0	2
36	DODIG-2013-057	14	9	5
37	DODIG-2013-063	13	1	12
38	DODIG-2013-070	8	3	5
39	DODIG-2013-071	5	0	5
40	DODIG-2013-077	4	1	3
41	DODIG-2013-083	11	2	9
42	DODIG-2013-100	6	0	6
43	DODIG-2013-101	2	0	2
44	DODIG-2013-104	5	0	5
45	DODIG-2013-105	3	3	0
46	DODIG-2013-130	12	8	4
47	DODIG-2013-134	14	0	14
48	DODIG-2013-135	11	0	11
49	DODIG-2013-138	25	1	24
50	DODIG-2014-021	7	0	7
51	DODIG-2014-030	7	0	7
52	DODIG-2014-039	6	1	5
53	DODIG-2014-046	5	3	2
54	DODIG-2014-057	33	7	26
55	DODIG-2014-059	9	0	9
56	DODIG-2014-066	12	9	3

Status of Report Recommendations (cont'd)

	Report Number	Recommendations Made	Recommendations Open	Recommendations Closed
57	DODIG-2014-067	7	7	0
58	DODIG-2014-068	3	0	3
69	DODIG-2014-070	8	5	3
60	DODIG-2014-071	2	0	2
61	DODIG-2014-076	15	0	15
62	DODIG-2014-087	5	1	4
63	DODIG-2014-090	6	6	0
64	DODIG-2014-101	11	0	11
65	DODIG-2014-102	14	14	0
66	DODIG-2014-104	16	16	0
67	DODIG-2014-106	7	0	7
68	DODIG-2014-112	5	0	5
69	DODIG-2014-113	2	0	2
70	DODIG-2014-119	10	0	10
71	DODIG-2015-010	5	5	0
72	DODIG-2015-035	12	0	12
73	DODIG-2015-038	6	5	1
74	DODIG-2015-056	7	6	1
75	DODIG-2015-060	6	0	6
	Total	**668**	**131**	**537**

Appendix E

DoD Office of the Inspector General Reports

The DoD OIG issued 138 audit reports from October 1, 2011, through December 31, 2014, that covered financial management functions within the Military Departments and Defense agencies. To obtain electronic copies of DoD OIG reports, please visit http://www.dodig.mil/audit/reports/index.html. The following is a list of the reports.

1. DODIG-2015-060, "U.S. Southern Command Government Purchase Card Controls Need Improvement to Prevent Improper Purchases," December 19, 2014

2. DODIG-2015-056, "Opportunities to Improve the Elimination of Intragovernmental Transactions in DoD Financial Statements," December 22, 2014

3. DODIG-2015-041, "Independent Auditor's Report on the Attestation of the Existence, Completeness, and Rights of the Army's General Equipment," November 25, 2014

4. DODIG-2015-038, "Additional Actions Needed to Effectively Implement the Army Fund Balance With Treasury Reconciliation Tool," November 20, 2014

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6. DODIG-2015-035, "Independent Auditor's Report on the U.S. Army Corps of Engineers, Civil Works, FY 2014 and FY 2013 Basic Financial Statements," November 14, 2014

7. DODIG-2015-033, "Independent Auditor's Report on the Department of Defense FY 2014 and FY 2013 Basic Financial Statements," November 17, 2014

8. DODIG-2015-025, "Independent Auditor's Report on the Air Force General Fund FY 2014 and FY 2013 Basic Financial Statements," November 7, 2014

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15. DODIG-2015-018, "Independent Auditor's Report on the Defense Health Agency Contract Resource Management FY 2014 Basic Financial Statements," November 7, 2014

16. DODIG-2015-017, "Independent Auditor's Report on the DoD Military Retirement Fund FY 2014 and FY 2013 Basic Financial Statements," November 7, 2014

17. DODIG-2015-010, "Defense Logistics Agency Did Not Fully Implement the Business Enterprise Architecture Procure-to-Pay Business Process in the Enterprise Business System," October 28, 2014

18. DODIG-2015-003, "Independent Auditor's Report on the Attestation of the Existence, Completeness, Rights and Obligations, and Presentation and Disclosure of the Department of the Navy's Afloat Ordnance," October 2, 2014

19. DODIG-2014-122, "Independent Auditor's Report on the Agreed-Upon Procedures for Reviewing the FY 2014 Civilian Payroll Withholding Data and Enrollment Information," September 26, 2014

20. DODIG-2014-119, "Excess Inventory Acquired on Performance-Based Logistics Contracts to Sustain the Air Force's C-130J Aircraft," September 22, 2014 (This report is For Official Use Only).

21. DODIG-2014-113, "Inappropriate Obligations for the T700 Technical, Engineering, and Logistical Services and Supplies Contract," September 17, 2014

22. DODIG-2014-112, "Delinquent Medical Service Accounts at William Beaumont Army Medical Center Need Additional Management Oversight," September 16, 2014

23. DODIG-2014-106, "Military Sealift Command Oversight of Excess Spare-Parts Inventory and Purchases for Sealift Program Roll-On/Roll-Off Ships Needs Improvement," September 9, 2014

24. DODIG-2014-104, "Global Combat Support System–Army Did Not Comply With Treasury and DoD Financial Reporting Requirements," September 3, 2014

25. DODIG-2014-102, "Government of the Islamic Republic of Afghanistan Needs to Provide Better Accountability and Transparency Over Direct Contributions," August 29, 2014

26. DODIG-2014-101, "Delinquent Medical Service Accounts at Brooke Army Medical Center Need Additional Management Oversight," August 13, 2014

27. DODIG-2014-090, "Improvements Needed in the General Fund Enterprise Business System Budget-to-Report Business Process," July 2, 2014

28. DODIG-2014-087, "Army's Audit Readiness at Risk Because of Unreliable Data in the Appropriation Status Report," June 26, 2014

29. DODIG-2014-076, "Opportunities for Cost Savings and Efficiencies in the DoD Permanent Change of Station Program," May 21, 2014

30. DODIG-2014-071, "Air Force Deputy Disbursing Officers Held Excess Cash," May 8, 2014

31. DODIG-2014-070, "Improvements Needed for Triannual Review Process at Norfolk Ship Support Activity," May 6, 2014

32. DODIG-2014-068, "Air Force Managers Did Not Implement Adequate Controls for the Defense Enterprise Accounting and Management System Order-to-Cash Business Process," May 1, 2014

33. DODIG-2014-067, "Improvement Needed for Management of Commemorative Program Funds," May 6, 2014

34. DODIG-2014-066, "Logistics Modernization Program System Not Configured to Support Statement of Budgetary Resources," May 5, 2014

35. DODIG-2014-059, "DoD Efforts to Meet the Requirements of the Improper Payments Elimination and Recovery Act in FY 2013," April 15, 2014

36. DODIG-2014-057, "Improvements to Controls Over Cash Are Needed at Army Disbursing Stations in Kuwait and Saudi Arabia," April 9, 2014

37. DODIG-2014-047, "Independent Auditor's Report on the Attestation of the Existence, Completeness, Rights and Obligations, and Presentation and Disclosure of the Department of the Navy's Ordnance," March 25, 2014

38. DODIG-2014-046, "Independent Auditor's Report on the Examination of DoD Execution of North Atlantic Treaty Organization–Contributing Countries' Donations to Afghan National Army Trust Fund," March 24, 2014

39. DODIG-2014-039, "Authorization of DoD Progress Payments For Ground Combat Vehicle Contracts Needs Improvement," February 12, 2014

40. DODIG-2014-036, "Independent Auditor's Report on the FY 2013 DoD Performance Summary Report of the Funds Obligated for National Drug Control Program Activities," January 31, 2014

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42. DODIG-2014-030, "Navy Needs to Improve Contract Oversight of Its Financial Improvement and Audit Readiness Program Contracts," January 13, 2014

43. DODIG-2014-025, "Independent Auditor's Report on the Department of Defense FY 2013 and FY 2012 Closing Package Financial Statements," December 16, 2013

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47. DODIG-2014-021, "Independent Auditor's Report on the DoD Medicare-Eligible Retiree Health Care Fund FY 2013 Basic Financial Statements," December 9, 2013

48. DODIG-2014-018, "Endorsement of the Unmodified Opinion on the DoD Military Retirement Fund FY 2013 Basic Financial Statements," December 9, 2013

49. DODIG-2014-017, "Independent Auditor's Report on the Air Force Working Capital Fund FY 2013 and FY 2012 Basic Financial Statements," December 9, 2013

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55. DODIG-2014-006, "Program Management Office Provided Adequate Oversight of Two Contracts Supporting the Defense Enterprise Accounting and Management System," October 25, 2013

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58. DODIG-2013-138, "The U.S. Air Force Academy Lacked Effective Controls Over Heritage Assets and Guest House Inventories, and Inappropriately Solicited and Accepted Monetary Gifts," September 23, 2013

59. DODIG-2013-135, "The Department of Defense and Veteran Affairs Health Care Joint Venture at Tripler Army Medical Center Needs More Management Oversight," September 18, 2013

60. DODIG-2013-134, "Navy Commercial Access Control System Did Not Effectively Mitigate Access Control Risks," September 16, 2013

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62. DODIG-2013-111, "Status of Enterprise Resource Planning Systems' Cost, Schedule, and Management Actions Taken to Address Prior Recommendations," August 1, 2013

63. DODIG-2013-105, "Navy Did Not Develop Processes in the Navy Enterprise Resource Planning System to Account for Military Equipment Assets," July 18, 2013

64. DODIG-2013-104, "DoD Oversight Improvements Are Needed on the Contractor Accounting System for the Army's Cost-Reimbursable Stryker Logistics Support Contract," July 16, 2013

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66. DODIG-2013-100, "Contract Administration of the Subsistence Prime Vendor Contract for Afghanistan Improved, but Additional Actions are Needed," July 2, 2013

67. DODIG-2013-083, "Efforts to Minimize Improper Payments for the Shipment of Household Goods Were Generally Effective But Needed Improvement," May 15, 2013

68. DODIG-2013-077, "The Navy Commercial Bill Pay Office, in Naples, Italy, Needs to Identify and Report Improper Payments," April 30, 2013

69. DODIG-2013-076, "Examination of Army Management's Assertion for Existence and Completeness of Operating Materials and Supplies Quick Win Assets," April 29, 2013

70. DODIG-2013-071, "The Audit Opinion of the DISA FY 2011 Working Capital Fund Financial Statements Was Not Adequately Supported," April 26, 2013

71. DODIG-2013-070, "Defense Agencies Initiative Did Not Contain Some Required Data Needed to Produce Reliable Financial Statements," April 19, 2013

72. DODIG-2013-063, "Award and Administration of Performance-Based Payments in DoD Contracts," April 8, 2013

73. DODIG-2013-061, "Improvements Needed to the Purchase Card On-Line System," March 27, 2013

74. DODIG-2013-057, "Enterprise Business System Was Not Configured to Implement the U.S. Government Standard General Ledger at the Transaction Level," March 20, 2013

75. DODIG-2013-054, "DoD Efforts to Meet the Requirements of the Improper Payments Elimination and Recovery Act in FY 2012," March 13, 2013

76. DODIG-2013-051, "Improvements to Controls Over Cash Are Needed at the Army Disbursing Office at Soto Cano Air Base, Honduras," March 4, 2013

77. DODIG-2013-050, "Recovering Organizational Clothing and Individual Equipment from Civilians and Contractor Employees Remains a Challenge," February 22, 2013

78. DODIG-2013-046, "DoD Does Not Have Visibility Over the Use of Funds Provided to the Department of Energy," February 15, 2013

79. DODIG-2013-045, "Army Business Systems Information Technology Strategy Needs Improvement," February 7, 2013

80. DODIG-2013-042, "Independent Auditor's Report on the DoD FY 2012 Detailed Accounting Report of the Funds Obligated for National Drug Control Program Activities," January 31, 2013

81. DODIG-2013-038, "Independent Auditor's Report on the Examination of the Existence, Completeness, and Rights of the Department of the Air Force's Uninstalled Missile Motors and Spare Engines," January 14, 2013

82. DODIG-2013-028, "Contracting Improvements Still Needed in DoD's FY 2011 Purchases Made Through the Department of Veterans Affairs," December 7, 2012

83. DODIG-2013-027, "DoD Generally Effective at Correcting Causes of Antideficiency Act Violations in Military Personnel Accounts, But Vulnerabilities Remain," November 30, 2012

84. DODIG-2013-025, "Accountability Was Missing for Government Property Procured on the Army's Services Contract for Logistics Support of Stryker Vehicles," November 30, 2012

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89. DODIG-2013-018, "Deliveries and Payments for the Defense Advanced GPS Receivers Met Contract Terms, but Property Accountability Needed Improvements," November 8, 2012

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98. DODIG-2013-008, "Independent Auditor's Report on the DoD Military Retirement Fund, FY 2012 and FY 2011 Financial Statements," November 6, 2012

99. DODIG-2012-144, "Independent Auditor's Report on the Agreed-Upon Procedures for Reviewing the FY 2012 Civilian Payroll Withholding Data and Enrollment Information," September 28, 2012

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101. DODIG-2012-131, "Improvements Needed in How the Defense Finance and Accounting Service Adjusts and Supports Billing Rates," September 19, 2012

102. DODIG-2012-130, "DFAS Controls over Duplicate Payments in One Pay Were Generally Effective, But There Were Opportunities for Improvement," September 14, 2012

103. DODIG-2012-118, "Defense Finance and Accounting Service Needs to Strengthen Procedures to Comply with the Federal Financial Management Improvement Act," August 14, 2012

104. DODIG-2012-117, "DoD Needs to Improve Controls Over Economy Act Orders with U.S. Agency for International Development," August 14, 2012

105. DODIG-2012-111, "Enterprise Resource Planning Systems Schedule Delays and Reengineering Weaknesses Increase Risks to DoD's Auditability Goals," July 13, 2012

106. DODIG-2012-108, "Questionable Data Cast Doubt on the Need for Continuing the Defense Transportation Coordination Initiative," August 31, 2012

107. DODIG-2012-107, "Defense Finance and Accounting Service Needs to Improve the Process for Reconciling the Other Defense Organizations' Fund Balance with Treasury," July 9, 2012

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109. DODIG-2012-097, "Independent Auditor's Report on the Attestation of the Existence, Completeness, and Rights of the Department of the Navy's Aircraft," May 31, 2012

110. DODIG-2012-096, "Defense Departmental Reporting System-Budgetary Was Not Effectively Implemented for the Army General Fund," May 31, 2012

111. DODIG-2012-087, "Logistics Modernization Program System Procure-to-Pay Process Did Not Correct Material Weaknesses," May 29, 2012

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113. DODIG-2012-069, "Action is Needed to Improve the Completeness and Accuracy of DEERS Beneficiary Data," April 2, 2012

114. DODIG-2012-066, "General Fund Enterprise Business System Did Not Provide Required Financial Information," March 26, 2012

115. DODIG-2012-065, "DoD Compliance With the Requirements of the Improper Payments Elimination and Recovery Act," March 15, 2012

116. DODIG-2012-058, "Distribution of Funds and Mentoring of Finance Officers for the Afghanistan National Army Payroll Need Improvement," February 29, 2012

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121. DODIG-2012-035, "American Recovery and Reinvestment Act - Improvements Needed in Implementing the Homeowners Assistance Program," December 21, 2011

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124. DODIG-2012-023, "Management Improvements Needed in Commander's Emergency Response Program in Afghanistan," November 21, 2011

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Acronyms and Abbreviations

CFO	Chief Financial Officers
DAGR	Defense Advanced Global Positioning System Receivers
DCPS	Defense Civilian Payroll System
DDRS	Defense Departmental Reporting System
DEAMS	Defense Enterprise Accounting Management System
DFAS	Defense Finance and Accounting Service
DLA	Defense Logistics Agency
EBS	Enterprise Business System
FBWT	Fund Balance with Treasury
FFMIA	Federal Financial Management Improvement Act
FIAR	Financial Improvement and Audit Readiness
FMR	Financial Management Regulation
GAAP	Generally Accepted Accounting Principles
GFEBS	General Fund Enterprise Business System
IGT	Intragovernmental Transactions
MIT	Material-in-Transit
OIG	Office of the Inspector General
OMB	Office of Management and Budget
OM&S	Operating Materials and Supplies
PMO	Program Management Office
PP&E	Property, Plant, and Equipment
SFFAS	Statement of Federal Financial Accounting Standards
SFIS	Standard Financial Information Structure
USD(C)/CFO	Under Secretary of Defense (Comptroller)/Chief Financial Officer

Glossary

Abnormal Balance. A balance reported in a general ledger account that is different from the expected normal balance for that account as defined in the chart of accounts. An example of this would be an asset account such as accounts receivable with a credit balance or a liability account such as accounts payable with a debit balance.

Absolute Value. The absolute value is the extent of a real number without regard to whether it is positive or negative.

Acquire-to-Retire. Encompasses all business functions necessary to obtain, manage, and dispose accountable and reportable property through its entire life cycle.

Constructive Delivery. Constructive delivery is property that has been recognized by the receiving party, but delivery has not occurred.

Disbursing Officer's Statement of Accountability. A document that reports the amount of cash disbursing officers are accountable for in their vault or safe.

Financing Sources. DoD receives Congressional appropriations as financing sources.

Forced Journal Voucher. An adjustment that forces agreement of general ledger balances to another accounting source without determining the transactional causes of the difference between the balances and without determining if either is correct.

Inter-Entity. Between or among different federal reporting entities and commonly refers to activities or costs between two or more agencies, departments, or bureaus.

Intragovernmental Accounts Receivable. The amount due to a governmental unit from another governmental unit.

Intragovernmental Trading Partner Elimination. Occurs when a defense agency sells goods or services to another defense agency. The selling defense agency eliminates the sale amount from its account receivable and revenue accounts, and the buying defense agency eliminates the purchase amount from its account payable and expense accounts.

In-Transit Disbursement. A disbursement that DoD has reported to the U.S. Treasury but either has not been received or processed by an accounting office.

Material Weakness. A deficiency, or combination of deficiencies, in internal control in which there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Negative Unliquidated Obligation. When the total disbursement(s) exceed the amount of the obligation.

Net Cost. Expenses less revenues or expenditures less receipts.

Net Outlay. Disbursements minus reimbursements collected.

Order-to-Cash. Encompasses all business functions necessary to accept and process customer orders for services or inventory held for sale.

Parametric Model. A method to estimate environmental liabilities that is based on different variable measureable properties.

Procure-to-Pay. A process that encompasses the initial request for goods or services through the payment for those goods and services.

Reasonable Possibility. Exists when the likelihood of an event is either reasonably possible or probable.

Significant Deficiency. A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Triannual Review. An internal control practice that is used to assess whether obligations recorded are bona fide (valid) needs of the appropriations charged.

Unmatched Disbursement. A disbursement that has been received and accepted by the accounting office, but has not been matched to the correct obligation.

Unmodified Opinion. An unmodified audit opinion means that the financial statements are reliable.

INSPECTOR GENERAL

INTEGRITY

EFFICIENCY

DEPARTMENT OF DEFENSE

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U.S. Department of Defense

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