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Inspector General
United States
Department of Defense

Cost of War Data for Marine Corps Contingency Operations Were Not Reliable

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Acronyms and Abbreviations

CBS	Cost Breakdown Structure
DFAS	Defense Finance and Accounting Service
DoD FMR	Department of Defense Financial Management Regulation
DS CAC	Deployed Support Cost Account Code
GAO	Government Accountability Office
HQMC	Headquarters, Marine Corps
O&M	Operation and Maintenance
OCO	Overseas Contingency Operations
OEF	Operation Enduring Freedom
OIF	Operation Iraqi Freedom
SABRS	Standard Accounting, Budgeting and Reporting System
SDT	Second Destination Transportation

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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July 22, 2011

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/CHIEF FINANCIAL OFFICER
ASSISTANT DEPUTY COMMANDANT OF THE MARINE CORPS FOR PROGRAMS AND RESOURCES AND FISCAL DIRECTOR OF THE MARINE CORPS

SUBJECT: Cost of War Data for Marine Corps Contingency Operations Were Not Reliable (Report No. D-2011-090)

We are providing this report for your information and comment. Marine Corps officials did not always support or accurately report FY 2008 overseas contingency operations (OCO) costs. Specifically, based on our sample results, we project that they supported 179 transactions, valued at approximately $2.27 billion, and partially supported 14 other transactions, valued at approximately $204 million. However, our projections also show that they could not support 86 transactions, valued at approximately $1.82 billion. In addition, we project that they did not accurately report approximately $58 million under the correct operation and another $1.36 billion under the correct cost category in the DoD Cost of War Report. Furthermore, we project that Marine Corps officials incorrectly reported approximately $40 million as OCO costs despite those costs not directly supporting OCO. We considered comments from the Acting Assistant Secretary of the Navy (Financial Management and Comptroller) on a draft of this report when preparing the final report.

As a result of management comments, we deleted draft Recommendation 5 and renumbered draft Recommendation 6 as Recommendation 5. Management comments generally conformed to the requirements of DoD Directive 7650.3; however, the Acting Assistant Secretary of the Navy (Financial Management and Comptroller) did not always provide a completion date for the planned actions addressing our recommendations. Therefore, we request the Acting Assistant Secretary of the Navy (Financial Management and Comptroller) provide the completion date of planned actions to Recommendations 3.a, 3.b, 3.c, and 5 by August 22, 2011.

Please provide comments that conform to the requirements of DoD Directive 7650.3. If possible, send management comments in electronic format (Adobe Acrobat File only) to audfmr@dodig.mil. Copies of management comments must have the actual signature of the authorizing official for your organization. We cannot accept the /Signed/ symbol in place of the actual signature. If you arrange to send classified comments electronically you must send them over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5868 (DSN 329-5868).

Patricia A. Marsh

Patricia A. Marsh, CPA
Assistant Inspector General
Financial Management and Reporting

Results in Brief: Cost of War Data for Marine Corps Contingency Operations Were Not Reliable

What We Did

We determined whether Marine Corps officials accurately reported FY 2008 OCO costs in the DoD Cost of War Report and whether documentation substantiated operation and maintenance obligations and deobligations.

What We Found

Marine Corps officials did not always support or accurately report FY 2008 OCO costs. Based on our sample results, we project that Marine Corps officials properly supported 179 transactions, valued at approximately $2.27 billion, and partially supported 14 other transactions valued at approximately $204 million. However, our projections also show that they could not provide sufficient documentation to support 86 transactions, valued at approximately $1.82 billion.

We also project that Marine Corps officials inaccurately entered financial coding that resulted in approximately $58 million and another $1.36 billion not being reported under the correct operation or cost category, respectively. Furthermore, we project that Marine Corps officials incorrectly reported approximately $40 million as OCO costs despite those costs not supporting OCO.

Costs were not always supported and accurately reported because Marine Corps officials had not developed command-level procedures to implement existing DoD and Marine Corps policies and reporting requirements. In addition, Headquarters, Marine Corps officials did not hold fund managers accountable for the accuracy of data.

As a result, DoD provided Members of Congress and other decisionmakers unreliable data. Also, portions of the FY 2008 Marine Corps operation and maintenance obligations reported on the DoD Cost of War Report did not reflect how funds were actually spent. In FY 2011, OCO-related data continued to be reported using the Cost of War Report, so the need for accurate data remains critical to decisionmakers.

What We Recommend

The Assistant Deputy Commandant of the Marine Corps for Programs and Resources and Fiscal Director of the Marine Corps should:

- update existing Marine Corps policy to define the level of detail and type of documentation necessary for maintaining a written audit trail,
- require fund managers to develop command-level standard operating procedures, and
- review the methodology for allocating costs across multiple ongoing operations.

Management Comments and Our Response

Based on management comments, we deleted a recommendation and subsequently renumbered another recommendation. The Acting Assistant Secretary of the Navy (Financial Management and Comptroller) comments were responsive, but did not always include completion dates for the planned actions. We request that management provide a completion date for the planned actions by August 22, 2011. Please see the recommendations table on page ii.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Assistant Deputy Commandant of the Marine Corps for Programs and Resources and Fiscal Director of the Marine Corps	3.a, 3.b, 3.c, and 5	1, 2, and 4

Please provide the completion date for the planned actions by August 22, 2011.

Table of Contents

Introduction

Audit Objective

The overall objective was to determine whether Marine Corps officials accurately reported FY 2008 OCO-related costs. Specifically, we reviewed whether Marine Corps documentation substantiated operation and maintenance (O&M) obligations and deobligations processed through the Standard Accounting, Budgeting and Reporting System (SABRS). See Appendix A for a discussion of the scope and methodology related to the audit objective and prior audit coverage. See Appendix B for a description of governing criteria. See Appendix C for the details of our statistical projections.[1] See Appendix D for a summary of the transactions tested and Appendix E for a list of sample transactions. See the Glossary for terms used throughout the report.

Background on DoD Contingency Operations in FY 2008

Public Law 110-181, "The National Defense Authorization Act for Fiscal Year 2008," January 28, 2008, Title XV, "Authorization of Additional Appropriations for Operation Iraqi Freedom and Operation Enduring Freedom," section 1508, authorized the Marine Corps approximately $4.74 billion in O&M appropriations to support Operation Iraqi Freedom (OIF) and Operation Enduring Freedom (OEF). OIF sought to stabilize Iraq, conduct stability and support operations throughout Iraq, and stop terrorists from using Iraq as a staging area for terrorist activities.[2] OEF is the continuing effort to track down terrorists and provide stability, primarily in Afghanistan, by denying terrorist organizations access to training camps and infrastructure, capturing Al Qaeda leaders and fighters, stopping terrorist activities against the United States and its allies, and preventing the re-emergence of international terrorist organizations. In FY 2008, the Marine Corps deployed Marines in support of OIF and OEF; it contributed to combat and security operations as well as humanitarian support efforts.

DoD Cost of War Reporting Process

In FY 2008, the Defense Finance and Accounting Service (DFAS) Contingency Reporting Cell prepared monthly and quarterly DoD Cost of War Reports based on O&M obligations broken out by Cost Breakdown Structure (CBS) cost category by consolidating data that DoD Components manually calculated from Component-unique accounting systems. The Under Secretary of Defense (Comptroller)/Chief Financial Officer approved the report before issuing it to stakeholders, such as the Office of Management and Budget, Congressional Budget Office, and Members of Congress. According to the Associate Director, Contingency Operations, Under Secretary of Defense (Comptroller)/Chief Financial Officer, Cost of War Report data are used in making budgetary decisions affecting current-year contingency operations, estimating future contingency operation costs, and identifying alternative approaches to successfully achieve operation objectives.

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[1] Projections and transaction amounts throughout this report pertain to absolute values.

[2] Combat Operations in Iraq have ceased, and as of September 1, 2010, the U.S. mission in Iraq is named Operation New Dawn.

Beginning in FY 2009, DoD prepared the Cost of War Report using the Contingency Operations Reporting and Analysis System that DFAS developed based on Component-unique programming logic.[3] In addition to preparing the Cost of War Report based on O&M obligations broken out by CBS cost category, DoD also began presenting information for Cost of War reporting based on the total funds appropriated and available, obligations incurred, disbursements made, unpaid obligations, and the unobligated balance for each program. Since FY 2009, DoD prepared both reports and made them available to the same stakeholders that received the Cost of War Report in FY 2008.

FY 2008 Marine Corps Contingency Operations Reporting

In FY 2008, 17 major commands reported approximately $4.74 billion in OCO-related O&M obligations and deobligations on the DoD Cost of War Report. Officials at the Headquarters, Marine Corps (HQMC), Programs and Resources, Budget Execution Contingency Cell, were responsible for tracking, compiling, and submitting all Marine Corps Cost of War data in FY 2008. The Contingency Cell officials developed "United States Marine Corps Standard Operating Procedure for Contingency Operations Reporting Process," December 2007, to:

- improve the accuracy and efficiency of the reporting process,
- establish a repeatable process for current and future contingency operations, and
- ensure that appropriated funds from Congress were used for their intended purpose.

In addition, Contingency Cell officials stated that their budget analysts assigned any transactions coded with an OCO-related special interest code supporting OIF, OEF, and Operation Noble Eagle[4] to a specific CBS cost category based on the Marine Corps programming logic, which was a series of "if/then" statements. Specifically, they stated that if the transactions included a deployed support cost account code (DS CAC), the cost was reported under a specific CBS cost category linked to that DS CAC based on Marine Corps Administrative Message 228/07, "Contingency Cost Account Code Changes FY07," March 26, 2007. However, Contingency Cell officials also stated that if the transactions included only an object or sub-object class code and not a DS CAC, their budget analysts used a separate series of "if/then" statements linking the object or sub-object class code to a particular CBS cost category.

Insufficient Internal Controls Limit the Reliability of Marine Corps Cost of War Reporting

We determined that internal control weaknesses in the Marine Corps existed as defined by DoD Instruction 5010.40, "Managers' Internal Control Program (MICP) Procedures," July 29, 2010. Specifically, for the 10 commands we visited and 2 units in Iraq we contacted, Marine Corps personnel did not maintain an adequate audit trail that supported initial obligations entered in the accounting system, nor were changes, including data element changes, adjustments, and error

[3] The Marine Corps used the same programming logic for generating data through the Contingency Operations Reporting and Analysis System that it used for manually preparing its Cost of War data in FY 2008.
[4] Operation Noble Eagle is the continuing U.S. effort to provide homeland defense and civil support in response to the terrorist attacks of September 11, 2001.

corrections, properly documented. Additionally, those same commands and units did not develop written procedures defining internal controls, roles and responsibilities, and documentation requirements necessary to ensure transactions were properly authorized, supported, or accurately reported. We will provide a copy of our report to the senior official responsible for internal controls in the Marine Corps.

Finding. FY 2008 Marine Corps OCO Obligations Were Not Always Supported or Accurately Reported

Marine Corps officials did not always support or accurately report FY 2008 OCO obligations. At 10 Marine Corps commands we visited in the continental United States and at two units contacted in Iraq, Marine Corps officials did not maintain sufficient documentation to properly support FY 2008 OCO obligations. From the results of our sample of 136 of 280 transactions processed during FY 2008, we project that:

- 179 transactions, valued at approximately $2.27 billion, were supported;
- 86 transactions, valued at approximately $1.82 billion, were unsupported; and
- 14 transactions, valued at approximately $204 million, were partially supported.[5]

In addition, Marine Corps budget and financial analysts entered incorrect budget and financial cost codes that resulted in the Contingency Cell reporting the costs under the incorrect contingency operation or CBS cost category on the DoD Cost of War Report. Specifically, we project that Marine Corps officials entered incorrect:

- special interest codes for 6 transactions,[6] valued at approximately $58 million; and
- financial cost codes for 97 transactions, valued at approximately $1.36 billion.

Furthermore, we project that Marine Corps officials reported OCO costs for four transactions, valued at approximately $40 million, that did not support OCO, and the documentation maintained for other transactions was insufficient to support whether they were OCO-related or correctly reported. These examples of misreporting costs and insufficient documentation also contributed to the unreliability of the OCO-related data.

The lack of fully supported or accurately reported transactions occurred because Marine Corps officials did not develop command-level written procedures for implementing the existing guidance in DoD Regulation 7000.14-R, "DoD Financial Management Regulation" (DoD FMR) and Marine Corps policy. In addition, HQMC officials did not hold fund managers accountable for the accuracy of their submissions and the guidance it issued did not clearly define the circumstances for entering specific OCO-related coding for transactions entered in SABRS. As a result, DoD provided Congress and other decisionmakers unreliable data because portions of the FY 2008 Marine Corps O&M obligations reported on the DoD Cost of War Report were inaccurate.

[5] Results do not total 280 transactions because of rounding.
[6] Of the projected 80 transactions that had incorrect special interest codes, only 6 resulted in Contingency Cell officials reporting the cost under an incorrect operation.

Marine Corps Officials Could Not Always Sufficiently Support FY 2008 OCO-Related Costs

Based on our sample results, we project that officials from the Marine Corps commands visited and units contacted maintained documentation to support 179 transactions, valued at approximately $2.27 billion. The funding documents provided were consistent with the requirements in Marine Corps Order P7300.21, "Marine Corps Financial Execution Standard Operating Procedure Manual," March 29, 2001, for supporting obligations. In addition, we project that Marine Corps personnel maintained documentation that partially supported 14 transactions, valued at approximately $204 million. However, our projections also show that Marine Corps personnel did not maintain adequate documentation to support the justification and date of 86 transactions, valued at approximately $1.82 billion. The unsupported transactions primarily related to second destination transportation (SDT)-related transactions and data element changes, adjustments, or error corrections.

However, our projections also show that Marine Corps personnel did not maintain adequate documentation to support the justification and date of 86 transactions, valued at approximately $1.82 billion.

SDT-Related Transactions Were Not Supportable

HQMC Installations and Logistics officials did not develop or maintain documentation to support the transactions they entered in SABRS for the SDT-related obligations we reviewed. DoD FMR 7000.14-R, Volume 3, Chapter 8, "Standards for Recording and Reviewing Commitments and Obligations," June 2005, requires accounting personnel to have a copy of the obligating document before recording an obligation into the system. HQMC Installations and Logistics budget analysts stated that they transferred funding between transportation account codes to ensure that it was available for expenditures incurred to move material between the original destination and another destination. These transactions were entered into SABRS to keep accounts liquid for future expenditures.

HQMC Installations and Logistics officials described to us the unwritten procedures they followed in FY 2008 for authorizing and approving obligations pertaining to SDT-related transactions. The lack of written procedures and the inability to support obligations was an internal control weakness.

Changes to SABRS Were Not Auditable or Supportable

Marine Corps officials could not provide documentation to support all data element changes, adjustments, or error corrections for the transactions sampled. DoD FMR 7000.14-R, Volume 6A, Chapter 2, "Financial Reports Roles and Responsibilities," March 2002, requires DoD Components to support adjustments with written documentation that is sufficiently detailed to provide an audit trail to the source transaction that details the justification, date, and authorization of the adjustment. Additionally, Marine Corps Order P7300.21 requires fund managers to maintain documentation that substantiates information processed in the accounting system and that satisfies audit requirements.

Marine Corps officials stated that they entered data element changes, adjustments, and error corrections in SABRS to ensure the accuracy of the financial information in the accounting system. Examples of data element changes include changes to the special interest code, cost account code, object or sub-object codes, or Budget Execution Activity within a standard document number.

Although DoD and Marine Corps guidance addressed the documentation requirements for adjustments, it did not address the need to document data element changes or error corrections. In addition, none of the Marine Corps commands or units had developed standard operating procedures describing roles and responsibilities for authorizing transactions or the level or type of documentation required to support an obligation resulting from data element changes, adjustments, or error corrections. The lack of documented requirements and implementing procedures affected the auditability of these types of transactions and contributed to the inability of the Marine Corps to support all obligations as required by DoD and Marine Corps policy.

With the exception of the Logistics Command, Marine Corps officials did not develop an audit trail to support data element changes because those changes were routinely performed within the scope of their duties or did not change the level of funding. Officials at Logistics Command stated that they developed new funding documents to support data element changes when time allowed because they believed all transactions should be supported by an authorized funding document. We recognize that Logistics Command officials made a concerted effort to support transactions they entered in the accounting system as required by Marine Corps Order P7300.21. However, despite those efforts, documentation also showed approval of the new funding documents as late as 2 weeks after entering the transactions into SABRS.

Changes resulting from data element changes, adjustments, or error corrections should be documented in writing because they could directly affect how information is reported or used by decisionmakers. On June 11, 2008, the HQMC Programs and Resources, Accounting and Financial Systems Branch, issued a memorandum, "Use of Memorandum Field on Active File Records in SABRS," encouraging personnel to use a newly developed memorandum field in the SABRS Active File for recording information about a transaction for historical and tracking purposes. However, none of the personnel interviewed indicated that they had used this electronic feature. The use of the memorandum field would enable the Marine Corps to more accurately support the justification and date of changes to transactions and provide an audit trail for data element changes, adjustments, and error corrections. The Marine Corps should revise the October 2008 version of Marine Corps Order 7300.21A to ensure that all transactions entered in the accounting system are fully supported and provide congressional and DoD decisionmakers reliable data for making budgetary decisions about contingency operations.[7]

The use of the memorandum field would enable the Marine Corps to more accurately support the justification and date of changes to transactions . . .

[7] Marine Corps Order 7300.21A, "Marine Corps Financial Management Standard Operating Procedure Manual," October 2, 2008, updated requirements. We based our audit work on the March 2001 order because the October 2008 order was not yet effective when the transactions occurred in FY 2008.

Marine Corps Personnel Incorrectly Entered OCO Budget and Financial Cost Codes

Marine Corps personnel entered inaccurate special interest codes in the SABRS financial information pointer, which caused FY 2008 OCO-related O&M obligations to be incorrectly reported on the DoD Cost of War Report. Specifically, based on our sample results, projections show that 6 transactions, valued at approximately $58 million, were incorrectly reported. In addition, our projections show that Marine Corps personnel entered incorrect financial cost codes, which resulted in those costs not being reported under a correct CBS cost category on the DoD Cost of War Report for 97 transactions, valued at approximately $1.36 billion.

Use of OCO-Related Special Interest Codes Was Inconsistent

Marine Corps officials entered OCO-related special interest codes that were inconsistent with documentation supporting the purpose of the transaction. Our projections show that miscoding the transactions resulted in the costs not being reported in the DoD Cost of War Report under a correct contingency operation for six transactions, valued at approximately $58 million. For example, one transaction sampled related to $8.4 million for providing simultaneous electro-optical and infrared imagery surveillance services for unmanned aerial vehicles. Documentation showed that these services were needed for the 24th Marine Expeditionary Unit to support OEF, but personnel at Systems Command entered a special interest code that aligned with costs reported under OIF, not OEF, on the DoD Cost of War Report.

Our projections show that miscoding the transactions resulted in the costs not being reported . . . under a correct contingency operation for six transactions, valued at approximately $58 million.

Marine Corps personnel used inconsistent methodologies in choosing which special interest code to enter based on:

- specific direction from the HQMC Budget Execution Contingency Cell;
- supplemental funding and direction from within the command;
- documentation in the Budget Execution Activity program manager's funding request;
- Department of the Navy direction in a memorandum of agreement for Uniform Funding and Management of Morale, Welfare, and Recreation;
- special interest codes that were previously entered;
- location where the majority of Marines were deployed; and
- information already included in the lines of accounting assigned to them.

For instance, officials at one command stated that they always entered a specific special interest code (PF0) supporting OIF because of language in the June 19, 2008, Marine Corps message, "Changes to Cost of War Reporting." Although that message also included other special interest codes that could be used, those officials stated that they coded transactions to OIF because most Marines were deployed in Iraq during FY 2008 and because any OCO-related costs incurred supported those operations. In other cases, officials entered special interest codes based on financial data already included in their lines of accounting. Those officials stated that they did not have the ability to change the financial coding. However, the HQMC Programs and Resources, Accounting and Financial Systems, Branch head stated that commands were

responsible for entering accurate and relevant financial codes within a standard document number in SABRS.

Marine Corps guidance was issued for implementing requirements in DoD FMR 7000.14-R, volume 12, chapter 23. Officials from the Contingency Cell provided guidance in effect during FY 2008 that required special interest codes to be entered for OCO-related transactions. Specifically, those officials provided Marine Corps Administrative Message 228/07 and the June 19, 2008, message. The administrative message requires Marine Corps commands to use the appropriate special interest code that ensures they receive proper reimbursement of OCO-related costs and to enter DS CACs. The June 2008 message reiterates these requirements and includes revised Marine Corps programming logic for existing DS CACs.

However, neither the administrative message nor the June 2008 message defined when a specific special interest code should be entered and with which operation the code aligned for Cost of War reporting purposes. This information would have enabled commands to more accurately code FY 2008 OCO-related transactions. The Marine Corps should ensure that future guidance defines circumstances for entering specific special interest codes because specific coding directly affects how information for high-visibility operations is reported by Contingency Cell officials. In addition, the guidance should address fund manager responsibilities for changing previously entered special interest codes to ensure the accuracy of Marine Corps Cost of War data. When fund managers base their decisions to enter special interest codes on reasons other than the purpose of the transaction, the Marine Corps' ability to meet the intent of its guidance is limited.

Inaccurate Financial Codes Were Used

Marine Corps personnel entered inaccurate DS CACs and object and sub-object class codes. Our projections show that because HQMC did not hold fund managers accountable for the accuracy of their data, inaccurate financial codes resulted in costs not being reported under a correct CBS cost category on the DoD Cost of War Report for 97 transactions, valued at approximately $1.36 billion.

Costs Were Incorrectly Reported Using DS CACs

Marine Corps personnel entered DS CACs that were inconsistent with the purpose of the transactions and that resulted in the cost of those transactions being misreported on the DoD Cost of War Report. The Marine Corps Administrative Message 228/07 includes a series of DS CACs that reflect programming logic for assigning costs to an applicable CBS cost category for Cost of War reporting purposes. For example, if officials at a Marine Corps command entered a DS CAC of "DS36" for a transaction, the cost of that transaction would have been reported under CBS cost category "4.6," which pertains to SDT.

For the transactions that included a DS CAC, documentation provided by the commands and units showed that the specific DS CAC was inaccurate. For instance, officials from a Marine Corps unit at Al'Asad Air Base in Iraq entered a DS CAC for other supplies and equipment, such as special protective gear or containers, for a $5.7 million transaction pertaining to bus transportation services on base. Using this code resulted in Contingency Cell personnel not reporting this cost under the correct CBS cost category that related to obligations incurred for base operating expenses, such as local area shuttle services.

Despite Marine Corps Administrative Message 228/07, which required commands to enter DS CACs . . . and the message the Contingency Cell officials issued . . . Contingency Cell officials did not hold all fund managers accountable for entering those codes.

Despite Marine Corps Administrative Message 228/07, which required commands to enter DS CACs for transactions containing OCO-related special interest codes after April 1, 2007, and the message the Contingency Cell officials issued on June 19, 2008, reiterating that requirement, Contingency Cell officials did not hold all fund managers accountable for entering those codes. In particular, they granted Systems Command a waiver from entering DS CACs. However, HQMC officials implemented DS CACs to improve the accuracy of Cost of War reporting, therefore, all fund managers should have been held accountable for entering and ensuring the accuracy of those codes. The Accounting Branch head at Systems Command stated that although the command was aware of the requirement to enter DS CACs, he believed entering that type of information did not add value in monitoring the execution of command funds, so he did not require his staff to enter these codes. Because the Systems Command personnel reported the largest amount of all FY 2008 Marine Corps O&M OCO-related obligations, they should not be exempt from using DS CACs.

Costs Were Incorrectly Reported Using an Object Class Code

Marine Corps personnel entered an object class code that was inconsistent with the purpose of the transaction and that resulted in the cost of that transaction being misreported on the DoD Cost of War Report. For example, Systems Command personnel entered an inaccurate object class code related to personnel equipment costs, such as desert camouflage, for a $34.1 million transaction to acquire axles for mine-resistant, ambush-protected vehicles. Using this code resulted in Contingency Cell personnel not reporting this cost under the correct CBS cost category that related to obligations incurred to operate or repair equipment used to defeat or counter the use of improvised explosive devices.

Costs Were Incorrectly Reported Using Sub-object Class Codes

Marine Corps personnel entered sub-object class codes that were inconsistent with the purpose of the transactions, and that inconsistency resulted in the Contingency Cell personnel misreporting the cost of those transactions under an incorrect CBS cost category. For example, a $16.1 million transaction at Systems Command related to procuring intelligence data handling and command and control equipment for a combat operations center in either Iraq or Afghanistan. For this transaction, Systems Command personnel entered a sub-object class code for general contract services even though the documentation clearly showed that this transaction should have been reported under a CBS cost category for obligations incurred to design, engineer, install, and maintain command, control, communications, computers, and intelligence-related systems.

None of the commands visited or units contacted had developed implementing procedures describing such internal controls as roles and responsibilities, including supervisory review, or actions required to ensure that the data entered in SABRS were accurate and supported. Marine Corps Order P7300.21 requires fund managers to monitor the execution of funds, prepare source

documentation, record accounting transactions in the accounting system, and ensure the accuracy of financial data entered in the financial information pointer. Although the Contingency Cell performed a high-level review of Cost of War data submissions, HQMC did not hold fund managers accountable for reviewing or validating their data despite the requirement that they ensure the accuracy of each financial transaction. To adhere to policy and more effectively hold fund managers accountable for the accuracy of data, HQMC Budget Execution Branch head should require the development of command-level procedures describing the types of documentation to be retained in each fund file, the level of detail required in funding documents, and the process for ensuring the accuracy of data entered in SABRS. Incorrect financial data increases the potential for inaccurate and unreliable Marine Corps budget reports.

Non-OCO Costs Were Reported or Documentation Was Insufficient to Support Whether Costs Were OCO-Related

Marine Corps officials reported costs not directly supporting OCO on the DoD Cost of War Report. Specifically, our projections show that they reported four transactions, valued at approximately $40 million, on the Cost of War Report that were not OCO-related. In addition, based on our sample results, we project that Marine Corps officials did not maintain sufficient documentation to support whether costs were directly attributable to OCO-related operations for 29 transactions. Further, our projections show that Marine Corps officials did not maintain sufficient documentation to support whether costs were accurately reported under the correct operation on the DoD Cost of War Report for 148 transactions, valued at approximately $2.44 billion.

Non-OCO Costs Were Reported on the Cost of War Report

Our projections show that Marine Corps personnel coded four non-OCO transactions, valued at approximately $40 million, with an OCO special interest code and erroneously included these transactions with other OCO-related costs on the DoD Cost of War Report. Documentation for these transactions included OCO-related special interest codes that resulted in Marine Corps officials incorrectly reporting these transactions as OIF-related costs on the DoD Cost of War Report.

For example, HQMC Budget Execution personnel used $11 million in OCO funding[8] for World War II prisoner of war back pay compensation that was not directly attributed to OCO in FY 2008. The Branch head stated that Public Law 110-181, Section 675, "Modification of Amount of Back Pay for Members of Navy and Marine Corps Selected for Promotion While Interned as Prisoners of War During World War II to Take into Account Changes in Consumer Price Index," requires the Marine Corps to fund the prisoner of war back pay costs. Although HQMC Budget Execution personnel were authorized to use supplemental funding to fund applicable World War II prisoner of war back pay compensation costs, this cost did not directly support OCO and, therefore, should not have been reported on the DoD Cost of War Report.

[8] Secretary of the Navy Instruction 7220.85, "Back Pay for Members of the Navy and Marine Corps Selected for Promotion While Interned as Prisoners of War During World War II," August 29, 2001, authorizes payments from any currently available appropriation.

In addition, officials at Blount Island Command, which is subordinate to Logistics Command, used $8.6 million in OCO funding to cover a baseline shortfall for labor costs supporting maritime pre-positioning of ships. Although this cost could have been OCO-related, a supervisory financial management analyst at Blount Island Command stated that it did not specifically support OCO.

Including costs of non-OCO transactions overstates Marine Corps OCO costs . . . and limits DoD's ability to accurately account for and report the true costs affecting operations in Iraq and Afghanistan.

Including costs of non-OCO transactions overstates Marine Corps OCO costs related to its support of OIF and limits DoD's ability to accurately account for and report the true costs affecting operations in Iraq and Afghanistan. The Marine Corps should ensure that future guidance defines circumstances for entering special interest codes when using OCO funding to support non-OCO transactions because specific coding directly affects how information for high-visibility operations is reported by Contingency Cell officials.

Insufficient Documentation Was Maintained to Support Whether Costs Were OCO-Related

Marine Corps officials did not maintain sufficient documentation, such as funding documents and statements of work, to support whether costs were directly attributable to OCO-related operations. Specifically, our projections show that Marine Corps officials maintained insufficient documentation to support whether 29 transactions supported OCO-related operations. For instance, a $16.3 million transaction from HQMC Installations and Logistics was for the privatization of water and wastewater utilities at Marine Corps installations in the continental United States. Installations and Logistics officials provided documentation, but it did not demonstrate how or why these services supported OCO-related requirements.

Marine Corps Order P7300.21 requires that the Marine Corps support all transactions entered in the accounting system, but it does not identify the specificity to which fund managers must include information to support the purpose of transactions. In addition, none of the commands had developed standard operating procedures to implement Marine Corps guidance. Without having specific and consistent documentation requirements in place, such as the level of detailed information necessary to support a transaction, the support would be based solely on the discretion of individual fund managers.

Documentation Was Insufficient to Support Whether Costs Were Reported Under the Correct Contingency Operation

Although Marine Corps officials generally maintained documentation, including statements of work, contracts, and Military Interdepartmental Purchase Request Acceptances, our projections show that it was insufficient to support whether costs were accurately reported under the correct operation on the DoD Cost of War Report for 148 transactions, valued at approximately $2.44 billion. For instance, 4 transactions from HQMC Installations and Logistics pertained to $93.8 million that was transferred to the U.S. Transportation Command to reimburse it for transportation costs affecting OIF and OEF. However, HQMC Installations and Logistics

officials entered a special interest code that resulted in those costs only being reported under OIF operations.

Although documentation showed that these costs were OCO-related, it did not clearly differentiate which operation was supported. In March 2009, the Government Accountability Office (GAO) concluded that although the Marine Corps captured totals for procurement and select O&M costs, a method for allocating the portion of costs attributable to OIF versus OEF did not exist.[9] As a result, the report concluded that all costs fitting that situation were subsequently reported as an OIF cost. Since the GAO review, the Marine Corps developed a methodology for allocating costs that it began implementing in FY 2009. However, that methodology allocated Procurement, Marine Corps, and limited O&M, Marine Corps, costs based on the percentage of deployed Marines supporting each contingency operation. To be effective and ensure accurate reporting, the Marine Corps methodology should be revised so that all applicable costs that support multiple operations are properly allocated.

Conclusion

Marine Corps officials did not always support or accurately report FY 2008 OCO obligations. The results of our sample of 136 of 280 transactions allowed us to project that 179, valued at approximately $2.27 billion, were supported. In general, however, personnel at the 10 Marine Corps commands visited and both units in Iraq contacted did not sufficiently support OCO-related obligations entered in SABRS during FY 2008. Additionally, officials did not always report the costs under the correct operation or CBS cost category in the DoD Cost of War Report because the command and unit personnel had entered inaccurate budget and financial codes. Specifically, we project that Marine Corps officials could not support the justification and date of 86 transactions, valued at approximately $1.82 billion, and could only partially support 14 other transactions, valued at approximately $204 million.

In addition, we project that Marine Corps officials did not report 6 transactions, valued at approximately $58 million under the correct operation, and they did not report 97 transactions, valued at approximately $1.36 billion under a correct CBS cost category in the FY 2008 DoD Cost of War Report. Furthermore, our projections show that Marine Corps officials reported the cost of four non-OCO transactions, valued at approximately $40 million, on the Cost of War report despite those transactions not directly supporting OCO.

The lack of fully supported or accurately reported transactions occurred because Marine Corps officials did not comply with existing DoD FMR or Marine Corps policies requiring a written audit trail for all transactions. Also, Contingency Cell officials issued ineffective guidance to support FY 2008 Marine Corps Cost of War reporting. FY 2008 Marine Corps Cost of War data have limited reliability because Marine Corps officials could not fully support or did not accurately report OCO-related costs. In addition, not reporting costs under the correct contingency operation or CBS cost category limited DoD's ability to accurately account for and report the costs affecting operations in Iraq and Afghanistan. Monthly and quarterly Cost of War

[9] GAO Report No. 09-302, "DoD Needs to More Accurately Capture and Report the Costs of Operation Iraqi Freedom and Operation Enduring Freedom," March 17, 2009.

Reports continue to be used by congressional, DoD, and other decisionmakers, so the need for accurate data remains critical to ensuring that the Cost of War Reports are reliable and can be used as intended for analyzing current and future budget requests, and for projecting future contingency operation costs.

Management Comments on the Finding and Our Response

Assistant Secretary of the Navy Comments

The Acting Assistant Secretary of the Navy (Financial Management and Comptroller) disagreed with our audit projection that approximately $3.4 billion in OCO costs was misstated on the Cost of War Report. The Assistant Secretary stated that the Marine Corps recently completed an audit of the General Fund Statement of Budgetary Resources for FY 2010 in which the Marine Corps produced more than 13,000 source documents to support a sample of 1,730 transactions. He also stated that the results of that audit demonstrate the Marine Corps' ability to produce auditable supporting documentation and noted that the results of that audit did not specifically identify concerns with OCO transactions. Further, the Assistant Secretary stated that the results of the General Fund Statement of Budgetary Resources audit demonstrate the effectiveness of Marine Corps actions implemented since 2008 to improve financial reporting.

Our Response

Although the Marine Corps recently completed an audit of the General Fund Statement of Budgetary Resources for FY 2010, that audit resulted in the DoD Office of Inspector General's issuing a disclaimer of opinion because of significant scope limitations. One of the limitations was the Marine Corps' inability to provide sufficient and relevant audit evidence to specifically substantiate all transactions tested during the audit.

On September 14, 2010, we issued a Notice of Findings and Recommendations to the Marine Corps in which we stated that it had not provided sufficient and relevant documentation because of its document retention procedures, inability to readily locate requested documentation, or complex methods of recording obligations, expenses, and liquidations. Although the Notice of Findings and Recommendations did not specifically address concerns with the OCO transactions, the transactions selected for testing were statistically sampled from the population of transactions. The OCO transactions in our sample were also statistically sampled from the population of obligations greater than or equal to $5 million and deobligations less than or equal to negative $5 million.

Our projections showed that the Marine Corps was unable to adequately support 86 transactions, valued at approximately $1.82 billion, and only partially support 14 transactions, valued at approximately $204 million. Further, our projections showed that the Marine Corps did not report approximately $58 million in OCO costs under the correct contingency operation and approximately $1.36 billion under the correct cost category on the DoD Cost of War Report. Based on the results of our audit of the FY 2010 General Fund Statement of Budgetary Resources, we disagree that corrective actions by the Marine Corps since 2008 have resulted in its ability to more accurately support and report OCO transactions.

Deleted and Renumbered Recommendations

As a result of management comments and further review of the issues by our Office of General Counsel, we deleted draft Recommendation 5 and renumbered draft Recommendation 6 as Recommendation 5.

Recommendations, Management Comments, and Our Response

We recommend that the Assistant Deputy Commandant of the Marine Corps for Programs and Resources and Fiscal Director of the Marine Corps:

1. Update Marine Corps Order 7300.21A, "Marine Corps Financial Management Standard Operating Procedure Manual," October 2, 2008, to define the level of detail and types of documentation necessary for maintaining a written audit trail to support all obligations, including those related to data element changes, adjustments, and error corrections, to improve the accuracy and supportability of financial information processed through the Standard Accounting, Budgeting and Reporting System.

Management Comments

The Acting Assistant Secretary of the Navy (Financial Management and Comptroller) agreed, stating that the Marine Corps was in the process of updating Marine Corps Order 7300.21A and expected that those updates would be completed by the end of FY 2011.

Our Response

The Navy comments are responsive, and proposed actions will address our concerns; therefore, no further comments are required.

2. Develop administrative procedures for the overseas contingency operations reporting process, and initiate actions against fund managers that do not show that they have properly reviewed and validated the accuracy and supportability of Cost of War data.

Management Comments

The Acting Assistant Secretary of the Navy (Financial Management and Comptroller) agreed, stating that the Marine Corps Fiscal Director has implemented administrative procedures for OCO reporting. Specifically, he stated that updates to the Marine Corps Contingency Operations Financial Management Handbook and the Marine Corps standard financial checklist were made and a naval message outlining coding requirements was issued. In addition, the Acting Assistant Secretary stated that as part of the monthly Cost of War administrative review process, improper coding issues are forwarded to the Marine Corps Financial Evaluation and Analysis Team to be used in training field comptroller personnel and correcting root cause issues.

Our Response

The Navy comments are responsive, and proposed actions will address our concerns; therefore, no further comments are required.

3. Instruct fund managers to develop command-level standard operating procedures that define:

a. roles and responsibilities, including supervisory review, of officials responsible for authorizing, approving, and entering transactions in the Standard Accounting, Budgeting and Reporting System;

b. the level of detail and types of documentation that must be retained in the standard document number files to adequately support all transactions entered in the Standard Accounting, Budgeting and Reporting System under their purview; and

c. a process for validating and testing the accuracy of financial coding, including the special interest code, deployed support cost account code, or other codes that specifically affect Marine Corps Cost of War reporting.

Management Comments

The Acting Assistant Secretary of the Navy (Financial Management and Comptroller) agreed, stating that recent updates to the Marine Corps Contingency Operations Financial Handbook, along with planned updates to Marine Corps Order 7300.21A, would be used as the basis for field comptrollers to update command-level standard operating procedures.

Our Response

The Navy comments are responsive, and proposed actions will address our concerns; however, the comments did not include a completion date for issuing the guidance. Therefore, we request the Assistant Secretary provide the completion date for the planned actions.

4. Require Marine Corps commands to enter deployed support cost account codes for transactions in the Standard Accounting, Reporting and Budgeting System with an overseas contingency operations special interest code based on existing Cost of War reporting requirements in Marine Corps Administrative Message 228/07, "Contingency Cost Account Code Changes FY07," March 26, 2007.

Management Comments

The Acting Assistant Secretary of the Navy (Financial Management and Comptroller) agreed, stating that the Marine Corps Fiscal Director would issue specific direction pertaining to Cost of War coding requirements at the beginning of each fiscal year.

Our Response

The Navy comments are responsive, and proposed actions will address our concerns; therefore, no further comments are required.

5. Review the current Marine Corps methodology for allocating costs between multiple contingency operations and revise, as necessary, procedures to ensure all relevant Marine Corps costs applicable to supporting each contingency operation are properly accounted for and accurately reported.

Management Comments

The Acting Assistant Secretary of the Navy (Financial Management and Comptroller) agreed, stating that the Marine Corps would review its methodology for allocating costs between multiple contingency operations. However, he stated that because many commands are involved in multiple operations, costs applicable to those operations would be reasonably allocated, such as through the use of "boots on the ground" estimates.

Our Response

The Navy comments are responsive, and proposed actions will address our concerns; however, the comments did not include a completion date for reviewing the methodology for allocating costs. Therefore, we request the Assistant Secretary provide the completion date for the planned actions.

Appendix A. Scope and Methodology

We conducted this performance audit from April 2009 through March 2011 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We interviewed officials responsible for signing contracts, managing funds, entering transactions into SABRS, developing and consolidating Cost of War data, and correcting system errors. Specifically, we interviewed command comptrollers, contracting officers, fund managers, financial analysts, and budget analysts. In FY 2008, 17 major commands reported approximately $4.74 billion in OCO-related O&M obligations and deobligations on the DoD Cost of War Report. Of those 17 major commands, we selected a judgment sample of 6 commands on the basis of their mission and the amount of reported OCO-related obligations. Specifically, we selected HQMC Programs and Resources; Logistics Command; Recruiting Command; Marine Forces Central Command; Marine Forces Command (Atlantic); and Systems Command; however, we determined that OCO-related obligations reported by those commands also included transactions processed by other major commands and subordinate commands. To understand internal controls, discuss transactions in our sample, and review source documentation, we visited the following 10 major and subordinate commands.

Command	**Location**
II Marine Expeditionary Unit, Camp Lejeune	Jacksonville, North Carolina
Base Command, Camp Lejeune	Jacksonville, North Carolina
HQMC Budget Execution	Arlington, Virginia
HQMC Installations and Logistics	Arlington, Virginia
HQMC Manpower and Reserve Affairs	Arlington, Virginia
HQMC Plans, Policies, and Operations	Arlington, Virginia
Logistics Command	Albany, Georgia
Marine Forces Central Command	Tampa, Florida
Recruiting Command	Quantico, Virginia
Systems Command	Quantico, Virginia

We also contacted the following two units in Iraq by phone and e-mail that reported costs through Marine Forces Central Command.

Unit	**Location**
Al'Asad Air Base	Iraq
Al'Taqaddum Supported Activities Supply System Management Unit	Iraq

We also met with officials from the DFAS Indianapolis Contingency Reporting Team and Expeditionary Support Organization and the Associate Director, Contingency Operations, Under Secretary of Defense (Comptroller)/Chief Financial Officer, to discuss the development, use, and issuance of the FY 2008 Cost of War Report. Further, we met with officials from HQMC

Accounting and Financial Systems Branch to discuss SABRS financial coding and to obtain the universe of OCO-related transactions processed through SABRS in FY 2008.

We reviewed internal controls over the processes represented by transactions in our sample through interviews and reviewing documentation. Specifically, we met with personnel responsible for entering transactions in SABRS to identify how the transactions were authorized, supported, and processed through SABRS for transactions pertaining to purchase requests, project orders, contracts, contingency per diem, SDT, warrior and family support, and predeployment training. In addition, we discussed the process for identifying and correcting errors and problem disbursements within SABRS. We also obtained and reviewed various error and problem disbursement reports related to unmatched disbursements, negative unliquidated obligations, and spending errors (automated interface errors).

We randomly selected and reviewed 139 OCO-related transactions, including O&M obligations greater than or equal to $5 million and deobligations less than or equal to negative $5 million, from a population of 284 transactions with a net value of approximately $1.57 billion and an absolute value of approximately $3.88 billion. The population was comprised of approximately $2.72 billion in obligations and $1.16 billion in deobligations. Because 3 transactions in the sample were entered by Marine Corps officials outside the scope of our audit (October 1, 2007, through September 30, 2008), our projections were based on the results of 136 transactions reviewed with a net value of approximately $840 million and an absolute value of $1.99 billion. In addition to the three transactions in the sample that were outside the scope of our audit, we found one more transaction in the population. That transaction reduced the population to 280 with a net value of approximately $1.57 billion and an absolute value of approximately $3.85 billion.

For the transactions in our sample, we reviewed documentation to determine whether the amount was supported, properly authorized, and appropriately coded to support how the cost was reported on the DoD Cost of War Report. We also interviewed officials and reviewed documentation to determine the purpose of the transaction by reviewing whether appropriate and relevant financial coding corresponded to the specific operation (OIF or OEF) and CBS cost category that appeared in the DoD Cost of War Report. Specifically, we reviewed whether the appropriate special interest code, DS CAC, and if applicable, the object and sub-object class codes had been entered by Marine Corps personnel.

Use of Computer-Processed Data

We obtained OCO-related obligations and deobligations processed through SABRS during FY 2008 for 17 commands from HQMC Accounting and Financial Systems Branch. We tested a sample of the transactions using various reports from SABRS, specifically the History Transaction File Inquiry, Active File Inquiry, and Multi History Transaction File Selection reports to identify pertinent financial codes entered by Marine Corps officials for each transaction. We tested the accuracy and reliability by reviewing corroborating evidence, such as statements of work, Military Interdepartmental Purchase Request Acceptances, contracts, and cost estimates, when available. In addition, we evaluated internal controls over the processes related to each type of transaction included in our sample. Further, we reviewed prior audit reports addressing the reliability and operating effectiveness of SABRS controls. From these

procedures, we have reasonable assurance that the data were sufficiently reliable for the purposes of our analysis and findings.

Use of Technical Assistance

The Quantitative Methods and Analysis Division of the DoD Office of Inspector General provided assistance in designing the statistical sampling plan for Marine Corps commands selected by the audit team and drawing a statistical sample of obligations and deobligations. Based on the sample results provided by the audit team, the Quantitative Methods and Analysis Division computed statistical projections. In addition, the Office of General Counsel evaluated whether select obligations met the intent of the DoD supplemental funding legislation authorized in Public Law 110-252, Title IX, "Defense Supplemental Appropriations for Fiscal Year 2008, Department of Defense - Military," or potentially violated the Antideficiency Act.[*]

Prior Coverage of Cost of War Reporting for Contingency Operations

During the last 5 years, GAO and the DoD IG have issued 7 reports discussing OCO-related costs and concerns over the integrity, confidentiality, and availability of data reported in SABRS. Unrestricted GAO reports can be accessed over the Internet at http://www.gao.gov. Unrestricted DoD IG reports can be accessed at http://www.dodig.mil/audit/reports.

GAO

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

GAO Report No. 09-302, "DoD Needs to More Accurately Capture and Report the Costs of Operation Iraqi Freedom and Operation Enduring Freedom," March 17, 2009

GAO Report No. 08-68, "Global War on Terrorism: DoD Needs to Take Action to Encourage Fiscal Discipline and Optimize the Use of Tools Intended to Improve GWOT Cost Reporting," November 6, 2007

GAO Report No. 05-882, "Global War on Terrorism: DoD Needs to Improve the Reliability of Cost Data and Provide Additional Guidance to Control Costs," September 21, 2005

DoD IG

DoD IG Report No. D-2009-073, "DoD Components' Use of Global War on Terror Supplemental Funding Provided for Procurement and Research, Development, Test and Evaluation," April 8, 2009

DoD IG Report No. D-2009-058, "DoD Cost of War Reporting of Supplemental Funds Provided for Procurement and Research, Development, Test, and Evaluation," February 27, 2009

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[*] Title 31, United States Code, Section 1341 (1982), "Limitations on Expending and Obligation Amounts," and Section 1517, "Prohibited Obligations and Expenditures."

DoD IG Report No. D-2008-101, "General Controls Over the Standard Accounting, Budgeting, and Reporting System (SABRS)," June 6, 2008

Appendix B. DoD and Marine Corps Policy and Guidance for Reporting OCO-Related Costs

DoD and the Marine Corps developed guidance for reporting contingency costs and requiring audit trails to support transactions entered in the accounting system. DoD issued DoD FMR 7000.14-R, Volume 12, Chapter 23, "Contingency Operations," September 2007; DoD FMR 7000.14-R, Volume 3, Chapter 8, "Standards for Recording and Reviewing Commitments and Obligations," June 2005; and DoD FMR 7000.14-R, Volume 6A, Chapter 2, "Financial Reports Roles and Responsibilities," March 2002. The Marine Corps issued Marine Corps Order P7300.21, "Marine Corps Financial Execution Standard Operating Procedure Manual," March 29, 2001, to improve the supportability and accuracy of financial data.

DoD Policy on Contingency Operations

DoD FMR 7000.14-R, volume 12, chapter 23, defines a contingency operation as support for peacekeeping operations, major humanitarian assistance efforts, noncombatant evacuation operations, and international disaster relief efforts. It requires contingency operation costs to be reported monthly in a status of funds report by CBS. In addition, it requires the DoD Components to report the obligation of all funds (regardless of source) to cover the incremental cost of the contingency based on Component-unique standard operating procedures. Further, the DoD FMR states that only incremental costs associated with the contingency operation should be used for estimating and reporting purposes and that those costs should be reported using a common cost structure, which in the FY 2008 Cost of War Report was the CBS cost category.

DoD and Marine Corps Policies on the Supportability of Financial Transactions

DoD FMR 7000.14-R, volume 6A, chapter 2, requires DoD Components to ensure that audit trails exist in sufficient detail to permit tracing of transactions with a unique identity from their source to demonstrate the accuracy, completeness, and timeliness of each transaction. In addition, it requires DoD Components to develop written documentation supporting an adjustment that includes the justification, detailed numbers and dollar amounts of errors or conditions, date, and name and position of the individual approving the adjustment.

DoD FMR 7000.14-R, volume 3, chapter 8, requires the accounting office responsible for the official accounting records of the fund manager to have a copy of the obligating document that supports the obligation before recording it in the accounting system.

Marine Corps Order P7300.21 requires fund managers to maintain valid source documentation to substantiate information processed in the accounting system and to satisfy audit requirements. Acceptable documentation to support an obligation includes: Amendment of Solicitation/Modification of Contract (SF 30), Order for Supplies and Services (DD Form 1155), Military Interdepartmental Purchase Request Acceptance (DD Form 448-2), Order for Work and Services (NAVCOMPT Form 2275), and a Request for Contractual Procurement (NAVCOMPT Form 2276).

Appendix C. Statistical Sampling Methodology and Projections

The Quantitative Methods and Analysis Division designed the statistical sampling plan and selected a statistical sample of obligations and deobligations.

Statistical Sampling Methodology

The Quantitative Methods and Analysis Division designed a simple random sampling plan from the population of 6 nonstatistically selected Marine Corps commands with 284 transactions with values either less than or equal to negative $5 million (deobligations), or with values greater than $5 million (obligations), and selected a statistical sample of 139 transactions. The audit team subsequently found that 3 transactions in the sample, and 4 of the 284 transactions in the population were entered into SABRS in FY 2009 and were outside the scope of the audit. Consequently, the sample size was reduced to 136 transactions corresponding to the adjusted population of 280 transactions.

Statistical Projections and Interpretations

Based on the audit results of the sampled transactions provided to the Quantitative Methods and Analysis Division, statistical projections are provided for measures used in the audit report. We are 90-percent confident that the number and amount of transactions for each measure are between the lower and upper bounds.

Table C. Support for Transaction Amounts

Transactions		90-Percent Confidence Level		
	Measure	**Lower Bound**	**Point Estimate**	**Upper Bound**
Supported	Number	164	179	194
	Amount	$2.00 billion	$2.27 billion	$2.54 billion
Not Supported	Number	72	86	101
	Amount	$1.42 billion	$1.82 billion	$2.22 billion
Partially Supported	Number	7	14	22
	Amount	$68 million	$204 million	$339 million
Not OCO-Related	Number	2	4	9
	Amount	$6 million	$40 million	$74 million
OCO Relation Unknown	Number	19	29	39
Reported Under Incorrect Operation	Number	1	6	11
	Amount	$18 million	$58 million	$97 million
Reported Under Correct Operation Unknown	Number	133	148	163
	Amount	$2.04 billion	$2.44 billion	$2.84 billion
Reported Under Incorrect CBS Cost Category	Number	82	97	111
	Amount	$1.11 billion	$1.36 billion	$1.61 billion

Legend:
CBS Cost Breakdown Structure
OCO Overseas Contingency Operations

Note: Amounts are approximate because of rounding.

Appendix D. Summary of Transactions Tested

Table D.1 identifies the results of testing whether Marine Corps documentation supported the amount of 136 transactions in our sample. In addition, it illustrates whether the documentation supported that the transaction was OCO-related. Table D.2 identifies the results of testing whether the Marine Corps entered appropriate financial-related codes based on the purpose of the transaction.

Table D.1. Test Results for the Supportability of FY 2008 OCO-Related O&M Obligations Processed Through SABRS

Command or Unit	Transactions Reviewed	Documentation Provided		Transaction Amount Supported			Transaction Supports OCO		
		Yes	No	Yes	No	Partially	Yes	No	Unknown
II Marine Expeditionary Forces	6	1	5	4	2	0	2	0	4
Al'Asad (Iraq)	13	7	6	7	3	3	13	0	0
Al'Taqaddum Supported Activities Supply System Management Unit (Iraq)	7	0	7	3	4	0	7	0	0
Base Command at Camp Lejuene	3	2	1	0	0	3	3	0	0
HQMC Budget Execution	2	1	1	1	0	1	1	1	0
HQMC Installations and Logistics	39	6	33	8	31	0	34	0	5
HQMC Manpower and Reserve Affairs	3	3	0	3	0	0	3	0	0
HQMC Plans, Policies, and Operations	1	1	0	1	0	0	1	0	0
Logistics Command	21	11	10	21	0	0	20	1	0
Marine Forces Central Command Tampa (Headquarters)	9	6	3	9	0	0	9	0	0
Recruiting Command	1	1	0	1	0	0	1	0	0
Systems Command	31	28	3	29	2	0	26	0	5
Total	**136**	**67**	**69**	**87**	**42**	**7**	**120**	**2**	**14**

Table D.2. Test Results of the Accuracy of FY 2008 OCO-Related O&M Obligations Processed Through SABRS

Command or Unit	Transactions Reviewed	General OCO Cost or Operation-Specific Cost			Purpose of the Transaction Corresponded With the Special Interest Code			Transaction Amount Reported Under Correct CBS Cost Category		
		General	Specific	Unknown	Yes	No	Unknown	Yes	No	Unknown
II Marine Expeditionary Forces	6	2	0	4	0	0	6	3	2	1
Al'Asad (Iraq)	13	0	13	0	13	0	0	3	7	3
Al'Taqaddum Supported Activities Supply System Management Unit (Iraq)	7	0	7	0	7	0	0	4	2	1
Base Command at Camp Lejuene	3	0	3	0	3	0	0	2	1	0
HQMC Budget Execution	2*	1	0	0	0	1	1	1	1	0
HQMC Installations and Logistics	39	18	16	5	16	0	23	27	12	0
HQMC Manpower and Reserve Affairs	3	3	0	0	0	0	3	3	0	0
HQMC Plans, Policies, and Operations	1	1	0	0	0	0	1	1	0	0
Logistics Command	21*	14	6	0	6	1	14	13	8	0
Marine Forces Central Command Tampa (Headquarters)	9	2	7	0	7	0	2	9	0	0
Recruiting Command	1	1	0	0	0	0	1	1	0	0
Systems Command	31	17	9	5	9	1	21	17	14	0
Total	**136**	**59**	**61**	**14**	**61**	**3**	**72**	**84**	**47**	**5**

* The total number of transactions reviewed for this command differs from the sum of the General, Specific, and Unknown columns in the General OCO Cost or Operation-Specific Cost section because one transaction was not OCO-related.

Appendix E. List of Transactions Tested

Table E identifies each of the 136 transactions represented in our sample. The information includes the standard document number for each transaction, a breakout showing whether the approximate cost was positive or negative, and the absolute value of each transaction.

Table E. List of 136 Transactions Represented in the Audit Sample

Standard Document Number	**Transaction Amount** (in millions)		**Absolute Value** (in millions)
	Obligation	**Deobligation**	
II Marine Expeditionary Forces			
M2013307WRMVIPR	$11.0		$11.0
		(11.0)	11.0
M2013308AMMAINT		(5.0)	5.0
M2013308RCG4CIF		(5.0)	5.0
M2013308WRCLS01	32.0		32.0
		(11.0)	11.0
Al'Asad (Iraq)			
M6789907SUAWB66	5.7		5.7
M6789908MP00015		(28.0)	28.0
		(5.6)	5.6
M6789908MP00025	9.5		9.5
	31.5		31.5
M6789908SUADA26	7.5		7.5
M6789908SUADA27		(7.7)	7.7
	7.7		7.7
M6789908SUADA39	8.8		8.8
M6789908SUAWB12		(6.5)	6.5
	6.5		6.5
	6.5		6.5
M6789908SUHGA20		(7.7)	7.7
Al'Taqaddum Supported Activities Supply System Management Unit (Iraq)			
M944518080G001		(12.3)	12.3
M944547232SB01		(5.1)	5.1
MMX20008MD0MTVR		(8.9)	8.9
	8.9		8.9
MMX20072560001		(5.3)	5.3
MMX20073592236		(5.5)	5.5
	5.5		5.5

Standard Document Number	Transaction Amount (in millions)		Absolute Value (in millions)
	Obligation	Deobligation	
Base Command at Camp Lejeune			
M9317708SU00017	39.1		39.1
		(20.9)	20.9
		(39.1)	39.1
HQMC Budget Execution			
M0008507MOB1A1A	5.1		5.1
M0008508MPDF024	11.0		11.0
HQMC Installations and Logistics			
M0008807CB0MGKW	5.9		5.9
	7.2		7.2
M0008808CB0MGDR	10.0		10.0
	20.0		20.0
	24.7		24.7
		(18.0)	18.0
		(12.0)	12.0
	10.0		10.0
M0008808CB0MGEF		(6.4)	6.4
	15.1		15.1
	26.8		26.8
	10.0		10.0
		(15.2)	15.2
M0008808CB0MGKW	43.6		43.6
	13.0		13.0
	20.0		20.0
		(36.2)	36.2
	10.0		10.0
	30.0		30.0
M0008808CB0MGR3	10.0		10.0
	40.0		40.0
		(30.0)	30.0
M0008808CB0MRAP		(70.0)	70.0
	30.0		30.0
		(5.6)	5.6
		(13.3)	13.3
	100.0		100.0
	40.0		40.0
M0008808GBTCCCD	6.1		6.1
	5.1		5.1
		(6.7)	6.7

Standard Document Number	Transaction Amount (in millions)		Absolute Value (in millions)
	Obligation	Deobligation	
HQMC Installations and Logistics (cont'd)			
M0008808MP7T581	11.8		11.8
	45.4		45.4
	23.4		23.4
	13.2		13.2
	13.2		13.2
M0008808MP7T593	13.8		13.8
M0008808RCFE121		(16.3)	16.3
	16.3		16.3
HQMC Manpower and Reserve Affairs			
M0008408MDMGWFS	10.9		10.9
	5.9		5.9
	5.9		5.9
HQMC Plans, Policies, and Operations			
M0009008MPP0014	18.0		18.0
Logistics Command			
M3845008SUMC006	10.0		10.0
M3845008SUMC062		(8.6)	8.6
M6700408MP81019		(5.4)	5.4
	5.4		5.4
M9885008WR00001	6.7		6.7
		(6.7)	6.7
M9885008WR00002	6.7		6.7
M9886108MP3564D	20.9		20.9
M9886108PO3C120		(8.5)	8.5
M9886108PO3C5R1		(7.8)	7.8
M9886108PO3C6Q0		(37.1)	37.1
M9886108PO3C6S0	8.2		8.2
M9886108PO3C6Z0	15.0		15.0
M9886108PO3C7F3	8.9		8.9
M9886108PO3D218	6.6		6.6
M9886108PO3D6Q0	24.5		24.5
		(24.5)	24.5
	19.0		19.0
M9886108PO3D76S		(15.4)	15.4
	12.1		12.1
M9886108PO3D7F3	8.9		8.9

Standard Document Number	Transaction Amount (in millions)		Absolute Value (in millions)
	Obligation	Deobligation	
Marine Corps Central Command Tampa			
M6789808MPDD132		(11.0)	11.0
		(7.4)	7.4
	7.4		7.4
	9.2		9.2
M6789808RCAT024		(5.2)	5.2
M6789808RCDD015	10.4		10.4
M6789808RCDD023		(7.0)	7.0
M6789808RCDD096	5.7		5.7
M6789808RCDD168	7.3		7.3
Recruiting Command			
M3987808RC8GWOT	11.7		11.7
Systems Command			
M6785408AMPA900	18.4		18.4
M6785408MPAW300	40.0		40.0
	49.0		49.0
M6785408MPAW487	5.1		5.1
M6785408MPAWJ50	10.0		10.0
M6785408MPKDD72	9.0		9.0
	5.5		5.5
M6785408RC5AA07	16.1		16.1
M6785408RCAC359		(6.9)	6.9
	15.3		15.3
	6.9		6.9
M6785408RCAW217	5.6		5.6
	5.6		5.6
M6785408RCAWL83	34.1		34.1
M6785408RCS3A04	9.2		9.2
M6785408RCS3B12	10.0		10.0
M6785408RCS9G16	6.2		6.2
M6785408RCS9H91	15.2		15.2
M6785408RCSAF92	8.8		8.8
M6785408RCSB791	5.7		5.7
M6785408RCSB962	8.4		8.4
M6785408RCSEB46	6.6		6.6
M6785408RCSF967	8.0		8.0
M6785408RCSJD60	8.5		8.5
M6785408RCSN842	7.3		7.3
M6785408RCSND70	8.2		8.2

Standard Document Number	**Transaction Amount** (in millions)		**Absolute Value** (in millions)
	Obligation	**Deobligation**	
Systems Command (cont'd)			
M6785408RCSRA54		(8.0)	8.0
M6785408RCSRC51	6.7		6.7
M6785408RCSRE30	5.1		5.1
M6785408RCSRL23	8.1		8.1
	15.0		15.0
Total	**$1,413.8**	**($573.8)**	**$1,987.6**

Glossary

Absolute Value. The positive value for a real number without regard to the sign.

Audit Trail. The ability to trace a transaction back to source documentation to ensure the accuracy, completeness, and timeliness of a transaction as well as to provide documentary support for all data entered in accounting systems.

Budget Execution Activity. A two-position alphanumeric code representing a subdivision of a Major Command for the purpose of controlling a specific segment of authorized funds used for accomplishing assigned missions.

Budget Execution Subactivity. The lowest organizational level in the Marine Corps to which funding is broken down.

Confidence Level. The degree of belief an auditor has in the obtained results.

Contingency Operation. Any small, medium, or large scale operation designated by the Secretary of Defense where U.S. Armed Forces are or may become involved in military operations against a hostile enemy, peacekeeping, humanitarian assistance, international disaster relief, or noncombatant evacuations.

Cost Breakdown Structure. A formalized structure developed to aid reporting costs of a contingency operation by category.

Cost of War Report. A monthly and quarterly report showing funding that the DoD executed based on the appropriation type, special interest code, and cost account code.

Data Element Change. A change to data (for example, special interest code, deployment support cost account code, object class code) in the financial information pointer.

Deployed Support Cost Account Code. A special cost account code used specifically for authorized contingency operations to provide a means of reporting costs of war and reimbursing commands for contingency support costs.

Financial Information Pointer. A collection of data elements that is essential to collecting and classifying funds by the type of funds used and the purpose for which they were executed.

Lower Bound (Lower Precision Limit). In attribute sampling, the minimum error estimated to exist in the population at a specified confidence level. In variable sampling, the minimum estimated value of the population at a specified confidence level. It is used to define the lowest value in a precision interval.

Military Interdepartmental Purchase Request Acceptance. A signed document, from an external organization, that shows an agreement to perform work or services that once received, constitutes an obligation of funds.

NAVCOMPT Form 2275. A document used to request reimbursable work or services from any Department of the Navy Component or external command that initially signifies a commitment until accepted by the command agreeing to perform the services; that signature results in the obligation of funds from the requesting command.

NAVCOMPT Form 2276. A document used to request a contracting action for work or services that is known, specific in nature, and can be contractually procured.

Object Class Code. A three-digit code defining the nature of the services or supplies and materials purchased.

Obligation. A firm, legally binding agreement between parties to acquire goods or services that results in the Government being liable for the amount shown on the agreement.

Point Estimate (Statistical Estimate). A numerical value assigned to a population parameter on the basis of evidence from a sample.

Population. The total collection of items from which a sample is selected.

Sample. A subset of a population that is examined or tested in order to obtain information or draw conclusions about the entire population.

Second Destination Transportation: Transportation required to effect movement of materiel from, to, or between the original destination and another destination.

Sub-object Class Code. A financial code specifying the source or specific nature of the services or equipment purchased.

Special Interest Code. An optional 2- to 3-digit alphanumeric code identifying specific functions within the budgetary subdivision field or other unprogrammed, highly visible issue (for example, Operation Iraqi Freedom, Operation Enduring Freedom).

Transportation Account Code. A four-digit alphanumeric code used for classifying the nature (for example, activity, location) of all Marine Corps-funded shipments.

Upper Bound (Upper Precision Limit). In attribute sampling, the maximum error estimated to exist in the population at a specified confidence level. In variable sampling, the maximum estimated value of the population at a specified confidence level. It is used to define the highest value in a precision interval.

Department of the Navy Comments

Final Report Reference

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

May 13, 2011

MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL

SUBJECT: Cost of War Data for Marine Corps Contingency Operations Were Not Reliable (Project No. D2009-D000FG-0183.000)

The Department of the Navy (DON) values high quality external reviews that provide substantive findings that enable us to improve our ability to produce accurate, reliable financial information and statements. The draft Department of Defense (DoDIG) Inspector General Report provides some valuable observations and recommendations for improvement of our command-level procedures, policies and reporting requirements. The DON does have concerns with the DoDIG's assessment of Marine Corps Overseas Contingency Operations (OCO) transactions in the Standard Accounting, Budgeting and Reporting System (SABRS), and finds the DoDIG's assertion that transactions associated with the WWII POWs and Maritime Pre-positioning violate the Anti-Deficiency Act (ADA) as erroneous.

Revised

I have reviewed the DoDIG's recommendations and have the following comments:

1. Recommendation 1. Update Marine Corps Order (MCO) 7300.21A, "Marine Corps Financial Management Standard Operating Procedure Manual," October 2, 2008, to define the level of detail and types of documentation necessary for maintaining a written audit trail to support all obligations, including those related to data element changes, adjustments, and error corrections, to improve the accuracy and supportability of financial information processed through SABRS.

DON Response: Concur. The Marine Corps is in the process of updating MCO 7300.21A. This effort is expected to be complete by end of FY 2011.

2. Recommendation 2. Develop administrative procedures for the overseas contingency operations reporting process, and initiate actions against fund managers that do not show that they have properly reviewed and validated the accuracy and supportability of Cost of War (CoW) data.

SUBJECT: Cost of War Data for Marine Corps Contingency Operations Were Not Reliable (Project No. D2009-D000FG-0183.000)

DON Response: Concur. The Marine Corps Fiscal Director has promulgated administrative procedures for OCO reporting, to include a naval message outlining CoW coding requirements at the beginning of the year, an update to the Contingency Operations Financial Management Handbook, and the inclusion of a CoW section in the Marine Corps' standard financial checklist for the accuracy of budget execution records, internal controls and supporting documentation. The CoW checklist enables field command comptrollers to verify and validate proper coding of OCO transactions. As part of the monthly CoW administrative review process, the Marine Corps improper coding trends are identified and forwarded to the Marine Corps Financial Evaluation and Analysis Team (MCFEAT) for further review, assessment and training of field comptroller personnel, thus correcting root cause issues and identifying enterprise wide solutions.

3. Recommendation 3. Instruct fund managers to develop command-level standard operating procedures that define:

a. Roles and responsibilities, including supervisory review, of officials responsible for authorizing, approving, and entering transactions in SABRS.

b. The level of detail and types of documentation that must be retained in the standard document number files to adequately support all transactions entered in SABRS under their purview; and

c. A process for validating and testing the accuracy of financial coding, including the special interest code, deployed support cost account code, or other codes that specifically affect Marine Corps CoW reporting.

DON Response: Concur. Together, the recently published update to the Marine Corps Contingency Operations Financial Management Handbook and the Financial Management Standard Operating Procedure, MCO 7300.21A, currently being updated, identify the roles and responsibilities, detail and types of documentation, and proper processes and procedures for reporting contingency operations costs. Based on the publication of these documents, field comptrollers will update their command Standard Operating Procedures.

4. Recommendation 4. Require Marine Corps commands to enter deployed support cost account codes for transactions in SABRS with an OCO special

SUBJECT: Cost of War Data for Marine Corps Contingency Operations Were Not Reliable (Project No. D2009-D000FG-0183.000)

interest code based on existing CoW reporting requirements in Marine Corps Administrative Message 228/07, "Contingency Cost Account Code Changes FY07," March 26, 2007.

DON Response: Concur. As part of initial guidance to Marine Corps field comptrollers at the beginning of the fiscal year, the Marine Corps Fiscal Director will continue to promulgate specific direction regarding CoW coding requirements. Most recently, this was promulgated in the form of a Naval Message.

5. Recommendation 5. Initiate a preliminary review, per with DoD Financial Management Regulation 7000.14-R, Volume 14, Chapter 3, "Preliminary Reviews of Potential Violations," November 2010, to determine whether the use of OCO-related operations and maintenance funds for prisoner of war and ship pre-positioning costs not directly supporting ongoing contingency operations resulted in a potential $19.6 million Antideficieny Act violation.

Deleted Recommendation

DON Response: The Department non-concurs with this recommendation. The DoDIG report notes that $19.6 million of FY 2008 Overseas Contingency Operations (OCO) supplemental Operation and Maintenance, Marine Corps (O&M,MC) funding was used to pay for two transactions that did not directly support ongoing contingency operations and that these actions potentially violate the ADA. Before addressing the two transactions, it is important to be clear on the fiscal legality of the information presented. The DoDIG asserts that the two transactions were inconsistent with legislative intent. Although committee report language describes the funding as support for Operation Enduring Freedom (OEF), there were no legal restrictions included in the FY 2008 Supplemental Appropriations Act (P.L. 110-252). For a potential ADA to occur, the legally binding restriction on the use of the funds must be contained in the Appropriations Act. (See LTV Aerospace Corp., B-183851, Oct. 1, 1975 and Principles of Federal Appropriations Law, Vol. 1, Ch. 2, p. 96-98.) Therefore, in accordance with the law, the FY 2008 OCO funds merge with other appropriated FY 2008 O&M,MC funds and are available for the same legal purpose as any O&M,MC funds.

Revised

With regard to the WWII payments, Section 667 of the FY 2001 National Defense Authorization Act (NDAA) authorizes the Secretary of the Navy to provide back pay to certain WWII Sailors and Marines and specifically provides that the Secretary may pay these costs "...from any appropriation currently available to the Secretary..." The transactions identified do not constitute a legal misuse of appropriated funding. As previously discussed, FY 2008 OCO funding was merged with other appropriated FY 2008 O&M,MC funding and pursuant to Sec. 667 were available for WWII back pay.

Revised

Final Report Reference

SUBJECT: Cost of War Data for Marine Corps Contingency Operations Were Not Reliable (Project No. D2009-D000FG-0183.000)

Since pre-positioning costs are appropriate charges to the O&M,MC appropriation and all FY 2008 appropriated O&M,MC funding was merged, there is no legal violation and therefore there can be no ADA violation.

Revised

It should be further noted that the reporting of CoW transactions is not directly equivalent to the availability of OCO-related resources. In the case of the FY 2008 O&M,MC account, the Department was provided a total of $4,498 million related to OCO estimates. $4,694 million was the total reported as CoW. Even if the questioned transactions should not have been reported as CoW, it cannot be concluded that OCO was used inappropriately.

6. Recommendation 6. Review the current Marine Corps methodology for allocating costs between multiple contingency operations and revise, as necessary, procedures to ensure all relevant Marine Corps costs applicable to supporting each contingency operation are properly accounted for and accurately reported.

Renumbered as Recommendation 5

DON Response: Concur. The Marine Corps will review its methodology for allocating costs between multiple contingency operations; however, it must be noted that many commands are involved in multiple operations, and must of necessity apply a "reasonableness" principle in allocating costs. For example, it would be impossible to determine the benefiting theater when funds are obligated for a gallon of fuel. In this instance the field comptrollers will derive an estimate based on criteria such as "boots on the ground."

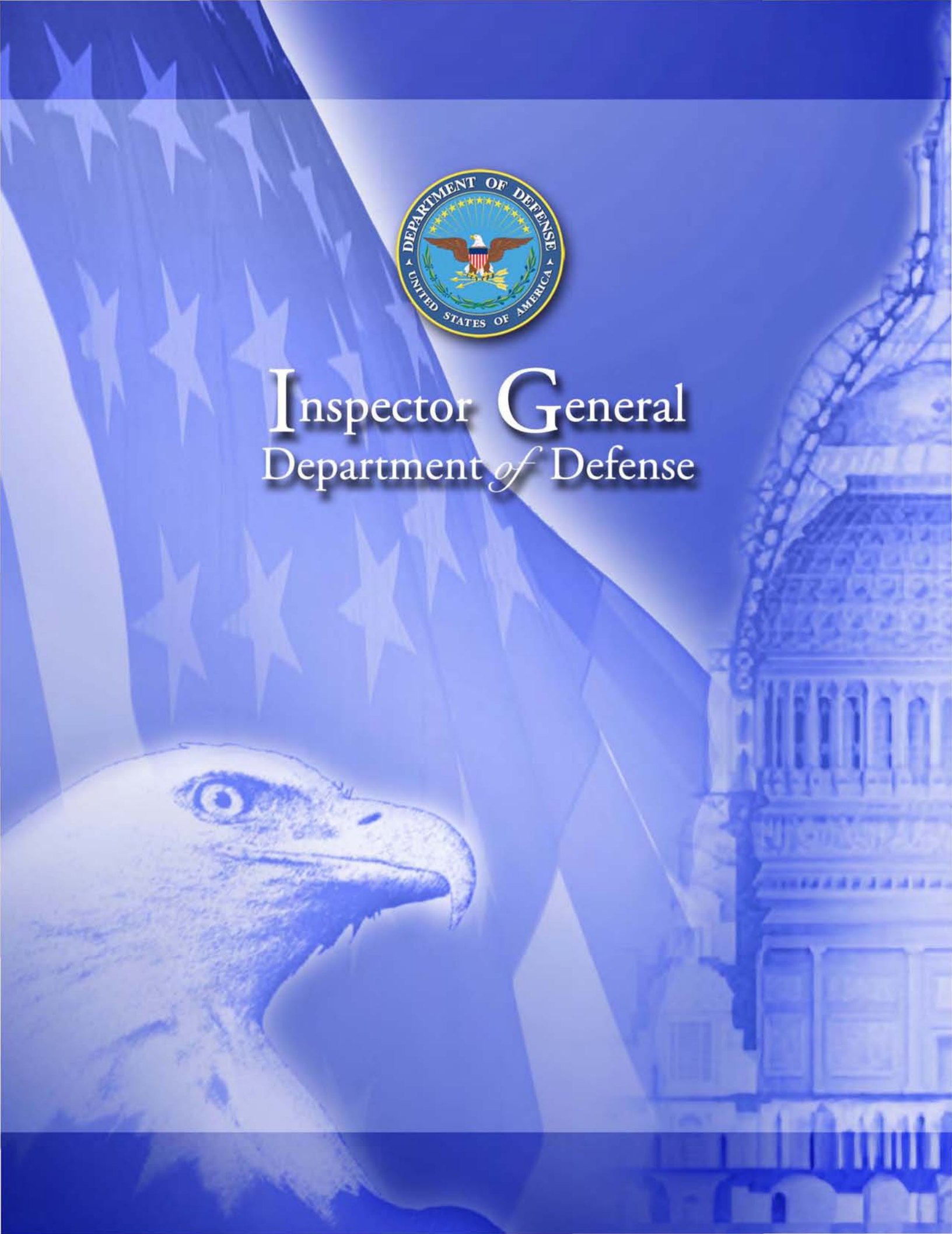
The Marine Corps recently concluded its audit of the General Fund Statement of Budgetary Resources (SBR) for FY 2010 under the auspices of the DoDIG. As part of the conduct of this engagement, the Marine Corps received sampling requests for 1,730 transactions and produced more than 13,300 source documents. This was a rigorous and highly collaborative exercise that aimed at supporting all necessary account balances in accordance with the federal auditing standards and principles promulgated by the Government Accountability Office, the President's Council on Integrity and Efficiency (i.e., Financial Audit Manual (FAM)), and other authoritative sources. The results of this audit demonstrated the Marine Corps' ability to produce a large volume of auditable supporting documentation, with the exception of those areas identified in the Notices of Findings and Recommendations (NFRs) that were generated and formally transmitted to the Marine Corps. The NFRs did not specifically identify concerns within OCO transactions. The experiences of the SBR audit of FY 2010 also confirm the effectiveness of actions implemented since 2008 to improve financial transactions. We therefore cannot agree with the DoDIG's audit projection of $3.4 billion as a potential material misstatement.

SUBJECT: Cost of War Data for Marine Corps Contingency Operations Were Not Reliable (Project No. D2009-D000FG-0183.000)

The DON and Marine Corps welcomes the opportunity to work transparently with the DoDIG to further improve our financial management processes, procedures and policy. My point of contact for this matter is [redacted]

John W. McNair
Acting

cc:
DCMC (P&R)
DASN(Budget)


Inspector General
Department of Defense