



OFFICE OF INSPECTOR GENERAL

AGENCY FINANCIAL REPORT

FISCAL YEAR 2015

Table of Contents

Message from the Agency Head.....2

Management’s Discussion and Analysis (Unaudited)

Background5
Mission Statement.....5
Vision Statement.....5
Core Values5
Organization5
Financial Overview 10
Systems, Controls, and Legal Compliance..... 13
Performance Goals and Objectives..... 15
Results..... 16
Events, Trends, and Risks 27

Financial Section

Financial Statements and Notes 36
Independent Auditor’s Report60

Other Information (Unaudited)

Schedule of Spending 82
Inspector General’s Summary of Management and Performance Challenges..... 83



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



I am pleased to present the Department of Defense Office of Inspector General Fiscal Year 2015 Agency Financial Report. The report provides information on our financial performance, an overview of our operations, and insight into our use of taxpayer dollars to execute our mission in accordance with the Inspector General Act of 1978, as amended.

We support the Department's national defense strategy by conducting audits, investigations, and evaluations across the entire spectrum of its programs and operations. Our oversight work enables the Department to reduce expenditures; detect and deter fraud, waste, and abuse; and improve performance. Our audits, investigations, and evaluations routinely return billions of dollars back to the Department and the Federal treasury. We also investigate criminal acts that impact the Department and result in criminal, civil, and administrative actions.

Our oversight continues to focus on areas that support national security concerns, such as insider threats, the defense intelligence enterprise, and cyber security. During fiscal year 2015, we evaluated and investigated programs that affects the readiness and safety of the Warfighter. This includes sexual assault prevention and response, suicide prevention and response, as well as overall force readiness. A significant number of our reports focus on the state of the Department's financial management and audit readiness efforts.

Fiscal year 2015 was a highly productive year for the Office of Inspector General (OIG). During this reporting period, we issued 183 reports identifying \$449.5 million in questioned costs and \$2.06 billion in funds put to better use. We achieved \$221.9 million in financial savings based on management-completed corrective actions on reports issued during this and previous reporting periods. The OIG Defense Criminal Investigative Service reported 111 arrests, 243 criminal charges, 257 criminal convictions, 245 suspensions and 299 debarments, as well \$1.3 billion in investigative receivables. Our work resulted in an additional \$135.6 million in assets being seized, orders of forfeiture totaling \$45 million, and monetary judgments in the amount of \$67.7 million.

Sound financial management is critical to performing our mission effectively. RMA Associates LLC, (RMA), an independent public accounting firm, audited our financial statements and provided an unmodified opinion, demonstrating that our financial statements are presented in accordance with applicable standards. RMA also provided recommendations that will help us continually improve our financial management operations and resolve four material weaknesses, one significant deficiency, and one non-compliance issue. For, example, RMA noted that our legacy financial management system does not fully comply with the Federal Financial



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



Management Improvement Act of 1996 (FFMIA). We are in the process of replacing this legacy system with a new system that will significantly enhance our financial management operations and help to address most of the concerns identified by RMA.

Finally, I want to thank the employees of the OIG for their dedication and commitment to the work of the OIG and for helping to provide reasonable assurance that the OIG's financial statements are fairly presented and its internal controls over financial reporting are effective.

A handwritten signature in blue ink, appearing to read "Glenn A".

Glenn A. Fine
Principal Deputy Inspector General
Performing the Duties of Inspector General
August 31, 2016



OFFICE OF INSPECTOR GENERAL
AGENCY FINANCIAL REPORT
FISCAL YEAR 2015

MANAGEMENT'S
DISCUSSION AND
ANALYSIS
(Unaudited)

Management's Discussion and Analysis

I. Background

The Inspector General Act of 1978 established civilian Offices of Inspector General in six Cabinet-level Federal departments and in six additional Federal agencies. The Department of Defense Office of Inspector General (DoD OIG) was established in 1982, when Congress amended the Inspector General Act in Public Law 97-252, "National Defense Authorization Act for Fiscal Year 1983," September 8, 1982.

Pursuant to the Inspector General Act of 1978, as amended, "the Inspector General of the Department of Defense shall...be the principal adviser to the Secretary of Defense for matters relating to the prevention of fraud, waste, and abuse in the programs and operations of the Department." The law also requires the Inspector General "to keep the [Secretary of Defense] and Congress fully and currently informed...concerning fraud and other serious problems, abuses, and deficiencies."

II. Mission Statement

The mission of the DoD OIG is to provide independent, relevant and timely oversight of the Department of Defense that supports the warfighter; promotes accountability, integrity and efficiency; advises the Secretary of Defense and Congress; and informs the public.

III. Vision Statement

The DoD OIG's vision is to be a model oversight organization in the Federal Government by leading change, speaking truth, and promoting excellence; a diverse organization, working together as one professional team, recognized as leaders in our field.

IV. Core Values

The core values of the DoD OIG are integrity, efficiency, accountability, and excellence.

V. Organization

The following organization chart provides an overview of the OIG structure.

¹ Inspector General Act, as amended.

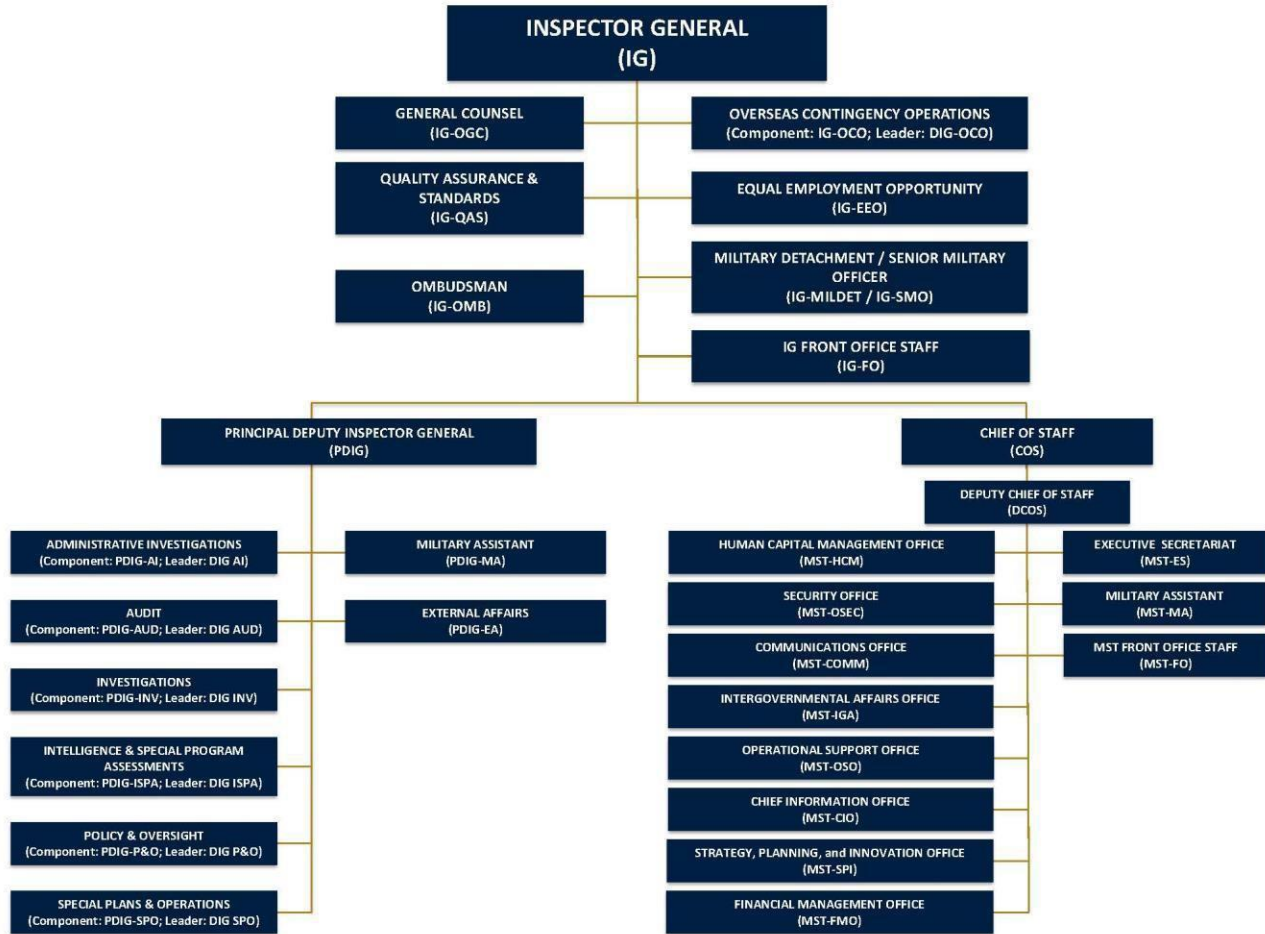


Figure 1. DoD OIG’s Organizational Structure as of September 30, 2015

Auditing

The Office of the Deputy Inspector General for Auditing (ODIG-AUD) conducts audits on all facets of DoD operations and supports the fundamental imperatives of the DoD identified in the Quadrennial Defense Review including transforming the Department’s warfighting capabilities and implementing enterprise-wide changes to ensure that organizational structures, processes, and procedures support DoD’s strategic direction. The ODIG-AUD conducts oversight that benefits DoD by addressing critical life and safety issues; improving operations and financial accountability; strengthening internal controls; identifying fraud, waste, and abuse; ensuring compliance with statute and regulations; improving national security; and identifying potential monetary benefits. ODIG-AUD is composed of four directorates: Acquisition, Parts, and Inventory; Contract Management and Payments; Readiness and Cyber Operations; and Financial Management and Reporting. Audit topics are determined by requests from the Secretary of Defense, other DoD leaders and the U.S. Congress as well as Defense Hotline allegations and DoD OIG risk analyses of DoD programs. Audit topics include contract management; services contracts; improper payments, and contractor overhead costs; major weapon systems acquisitions; financial management and audit readiness efforts;

business systems modernization; cyber operations; health care; and joint warfighting and readiness.

Investigations

The Office of the Deputy Inspector General for Investigations (ODIG-INV) contains the Defense Criminal Investigative Service (DCIS). DCIS focuses primarily on fraud investigations (e.g., procurement and acquisition; defective, substituted, and counterfeit products); public corruption (e.g., bribery, kickbacks, and theft); technology protection investigations (illegal transfer, theft, or diversion of DoD technologies and U.S. Munitions List items to forbidden nations and persons); healthcare; and cyber crimes.

Procurement fraud includes, but is not limited to, cost or labor mischarging, defective pricing, price fixing, bid rigging, and defective and counterfeit parts. The potential damage resulting from procurement fraud extends well beyond financial loss. This crime poses a serious threat to the ability of the Department to achieve its operational objectives and can have a negative impact on the implementation of programs. DCIS places the highest priority on investigations affecting safety and operational readiness to protect the welfare of warfighters throughout the procurement process.

DCIS supports DoD and its warfighting mission through timely, comprehensive investigations of counterfeit, defective or substandard products, and substituted products that do not conform to the requirements of the contract. Nonconforming products disrupt readiness and waste economic resources. They also threaten the safety of military and government personnel as well as other end users.

DCIS is an active member of the Council of Inspectors General on Integrity and Efficiency (CIGIE) and is a mainstay on the Department of Justice National Procurement Fraud Task Force, created in October 2006 to promote the prevention, early detection, and prosecution of procurement fraud. This task force includes the FBI, the Department of Justice (DoJ) Inspector General, other Federal Inspectors General and Defense investigative agencies, Federal prosecutors from U.S. Attorneys' offices across the country, as well as the Criminal, Civil, Antitrust, and Tax Divisions of the DoJ. DCIS also remains a key member of the DoJ International Contract Corruption Task Force, whose mission is to deploy criminal investigative and intelligence assets worldwide to detect, investigate, and prosecute corruption and contract fraud resulting primarily from Overseas Contingency Operations (OCO). The mission of this task force is to integrate the full spectrum of investigative, intelligence, audit and prosecutorial resources to combat contract fraud and public corruption related to U.S. Government spending.

Administrative Investigations

The Office of the Deputy Inspector General for Administrative Investigations (ODIG-AI) promotes public confidence in the integrity and accountability of DoD leadership. The ODIG-AI investigates and performs oversight reviews of investigations conducted by the Service Inspector Generals into allegations of senior official misconduct and whistleblower reprisal,

improper mental health referrals, and the restriction of military members from contacting an Inspector General or a member of Congress.

The ODIG-AI is comprised of three directorates: Whistleblower Reprisal Investigations (WRI), Investigations of Senior Officials (ISO), and DoD Hotline.

The WRI Directorate is responsible for the DoD Whistleblower Protection Program, which encourages personnel to report fraud, waste, and abuse to the appropriate authorities; provides mechanisms for addressing complaints of reprisal; and recommends remedies for whistleblowers who encounter reprisal, consistent with applicable laws, regulations, and policies.

The ISO Directorate is responsible for investigating and performing oversight reviews of investigations conducted by the Service IGs into allegations of misconduct against general and flag officers, members of the Senior Executive Service, and presidential appointees. ISO evaluates the impact of these investigations on public confidence in DoD leaders and ultimately on national security. In addition, the ISO Directorate, as part of its responsibility to inform the President and Senate of adverse information about senior officials nominated for promotion, reassignment, or other action, conducts over 11,000 name checks annually on DoD senior officials. The Senate Armed Services Committee relies exclusively on checks completed by ISO before confirming military-officer promotions.

The DoD Hotline provides a confidential avenue for individuals to report allegations of wrongdoing pertaining to programs, personnel, and operations that fall under the purview of the Department of Defense, pursuant to the Inspector General Act of 1978. Members of the public and Department of Defense employees (military members, civilian employees, and DoD contractor employees) may file a complaint with the DoD Hotline.

Policy and Oversight

The Office of the Deputy Inspector General for Policy and Oversight (ODIG-P&O) provides policy, guidance, and oversight for audit, investigations, and Defense Hotline activities within DoD. ODIG-P&O also provides analysis and comments on all proposed draft DoD policy issuances, conducts technical assessments of DoD programs, and provides engineering support for other DoD OIG assessments. The ODIG-P&O is comprised of three directorates: the Audit Policy and Oversight (APO) Directorate, the Investigative Policy and Oversight (IPO) Directorate, and the Technical Assessment Directorate (TAD).

APO provides audit policy direction, guidance, and oversight for the Office of the Deputy Inspector General for Auditing, the Military Departments' audit organizations, the Defense Contract Audit Agency (DCAA), other Defense audit organizations, and for public accounting firms under the Single Audit Act. In addition, APO develops policy, evaluates program performance, and monitors actions taken by all components of the Department in response to DCAA audits. APO also provides DoD-wide policy on performing inspections and evaluations. In this capacity, APO provides guidance for the inspection/evaluation functions performed by the 17 Defense agencies, the Joint and Combatant commands, and the

Military Departments.

IPO evaluates the performance of and develops policy for the DoD criminal investigative and law enforcement community, manages the DoD Subpoena program, and the DoD Contractor Disclosure program. The Contractor Disclosure program requires DoD contractors to notify the DoD IG when a Federal criminal law is violated or a violation of the False Claims Act occurs, and will include newly required reporting of electronic counterfeit parts. Over the past few years, IPO evaluated systemic processes including data collection and analysis to determine the effectiveness of management control systems related to sexual assault and other violent crime investigations. This includes reviewing sexual assault and other violent crime investigative policies and related programs to determine compliance with Federal law, and DoD and Military Service investigative standards.

TAD conducts expert, independent technical engineering assessments in order to improve defense system acquisitions, operations, and sustainment by addressing issues of concern to Congress, DoD, and the public. Additionally, TAD provides a variety of engineering support functions for the DoD OIG audit, investigative, and evaluation organization and to other DoD organizations, as needed.

Intelligence and Special Program Assessments

The Office of the Deputy Inspector General for Intelligence and Special Program Assessments (ODIG-ISPA) conducts audits, evaluations, inspections, and administrative investigations, to include monitoring, and reviewing various programs, policies, procedures, and functions of the DoD Intelligence, Counterintelligence, Security, Nuclear Enterprises, and Special Access Programs (SAPs) of the DoD. The ODIG-ISPA audits, reviews, and evaluates topics determined by law, requests from the SECDEF and other DoD leadership, Defense Hotline allegations, congressional requests, and analyses of risk in intelligence, counterintelligence, security, and nuclear enterprises. The ODIG-ISPA also works closely with other Federal agencies and other organizational Inspector Generals, such as the Central Intelligence Agency, Office of the Director of National Intelligence, and the DoJ, coordinating and collaborating on projects to ensure proper operation, performance, and results for various national-level activities. ODIG-ISPA also collaborates with the Office of the Director of National Intelligence Inspector General's Intelligence Community Inspectors General Forum, to enhance the collective partnerships of each of the group's members and to continue to foster increased collaboration, coordination, and information sharing.

Special Plans and Operations

The Office of Special Plans and Operations (SPO) conducts timely, high-value assessment reports on strategic challenges and issues, with a special emphasis on overseas contingency operations funding issues and operations. Its work complements the efforts of the other DoD OIG Components. SPO is staffed with a combination of civilian and military personnel who must be deployable to overseas contingency operations.

Overseas Contingency Operations

The Office of the Deputy Inspector General for Overseas Contingency Operations (ODIG-OCO) conducts audits, assessments, and inspections to fulfill the DoD OIG's responsibilities under Section 8L, "Special Provisions Concerning Overseas Contingency Operations," of the IG Act (5 U.S.C. App), as amended. No later than 60 days after the commencement or designation of a military operation as an overseas contingency operation that exceeds days, the Chair of the Council of Inspectors General on Integrity and Efficiency (CIGIE) designates a Lead Inspector General. The IGs for the Department of Defense, Department of State, and U.S. Agency for International Development are responsible for staffing and supporting the Lead IG to ensure that comprehensive oversight is conducted and reported. The ODIG-OCO is responsible for coordinating joint strategic oversight plans to carry out comprehensive oversight of all aspects of designated overseas contingency operations. The results of this comprehensive approach are intended to increase the effectiveness of oversight capabilities across agency jurisdictional boundaries and provide results to help Congress and agency leadership make informed program, policy, and funding decisions.

Other DoD OIG Components

The Office of General Counsel (OGC) provides independent and objective advice and legal counsel to the Inspector General and the OIG. The scope of OGC advice and legal opinions includes criminal and administrative investigations, procurement, fiscal, personnel, ethics, international, and intelligence matters. The OIG General Counsel serves as the OIG Designated Agency Ethics Official (DAEO) and manages the OIG Ethics Program. Beginning in FY 2015, the personnel and mission responsibilities of the Freedom of Information Act, Privacy, and Civil Liberties Office was transferred to the OIG Office of General Counsel. This realignment is consistent with how a majority of the CIGIE community operates and provides for a more direct relationship between the office and the legal support functions it relies upon.

The Mission Support Team (MST) supports the OIG's operations at the headquarters and 58 field offices located throughout the world. MST is comprised of these seven directorates: Human Capital Management Office, the Office of Security, the Logistics Management Office, the Office of the Chief Information Officer, the Financial Management Office, Strategy, Planning, and Innovation Office, and the Executive Secretariat.

VI. FINANCIAL OVERVIEW

The DoD OIG's annual appropriation for FY 2015 was \$314.5 million; included in this amount was \$10.6 million for OCO. The FY16 President's budget request for the operations of the DoD OIG was \$311.8 million. The portion of this amount needed for OIG training was \$3.6 million, and the amount needed to support CIGIE was \$0.9 million.

The following table depicts our FY 2015 submission of current and future core budget and personnel requirements for FY 2015 through 2020; it does not include OCO funding. In accordance with the DoD's Efficiency Initiative, the DoD OIG is also evaluating contractor positions and in-sourcing where possible.

	FY15	FY16	FY17	FY18	FY19	FY20
Budget (Millions)	\$312	\$311	\$309	\$308	\$307	\$312
Civilian Personnel (FTE's)	1,570	1,570	1,600	1,592	1,584	1,584
Annual Growth		0	30	(8)	(8)	0
Cumulative Growth		0	30	22	14	14

Limitations of the Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of the DoD OIG, pursuant to the requirements of 31 U.S.C. 3515 (b). The statements have been prepared from the accounting records of the Department in accordance with OMB Circular No. A-136, Financial Reporting Requirements, and to the extent possible, U.S. Generally Accepted Accounting Principles (USGAAP) for Federal entities, and the DoD Financial Management Regulation. The statements, in addition to supporting financial reports, are used to monitor and control budgetary resources. The statements should be read with the realization that they are for a component of the Government, a sovereign entity.

Financial Highlights and Analysis

The Defense Finance and Accounting Service (DFAS) prepared the consolidated financial statements and explanatory notes, located in the Financial Information section of this report. The principal financial statements include the:

- Balance Sheet
- Statement of Net Cost
- Statement of Changes in Net Position.
- Statement of Budgetary Resources

Balance Sheet

The Balance Sheet, which reports the DoD OIG's financial position as of September 30, 2015, reports probable future economic benefits obtained or controlled by the DoD OIG (Assets), claims against those assets (Liabilities), and the difference between them (Net Position).

The \$103.7 million in assets represents amounts the DoD OIG owns and manages, and is comprised of Fund Balance with Treasury (FBWT), Accounts Receivable, and Other Assets.

Total assets increased 9.0% from FY 2014, largely due to an 8.7% increase in FBWT.

DoD OIG's total liabilities increased 4.4% during FY 2015, primarily due to both an increase in Accounts Payable and Other Liabilities.

Statement of Net Cost

The Statement of Net Cost presents the net cost of all the DoD OIG's programs. The statement reports total expenses incurred less revenues earned from external sources to finance those expenses. Generally, the resulting balance of net cost is equivalent to the outlays reported on the Statement of Budgetary Resources, plus accrued liabilities. The differences between reported outlays of the budgetary resources and reported net cost generally arise from when expenses are recognized.

The DoD OIG's costs incurred relate primarily to operations, and support activities. These costs were offset with earnings from reimbursed activities. This activity resulted in \$314.3 million in net cost of operations during the fiscal year.

The \$314.3 million in net cost of operations represents an \$11.5 million decrease (3.5 percent) from FY 2014 reported net cost. Approximately \$8 million of the decrease is related to the cost for operations, readiness, and support activities.

Statement of Changes in Net Position

The Statement of Changes in Net Position (SCNP) presents the total cumulative results of operations since inception and unexpended appropriations at the end of the fiscal year. The SCNP displays the components of net position separately to enable the user to better understand the nature of changes to net position as a whole. The statement focuses on how the net cost of operations as presented on the Statement of Net Cost is financed, as well as displaying the other items financing the DoD OIG's operations. The DoD OIG's ending net position decreased \$6.5 million during FY 2015.

Statement of Budgetary Resources

The Statement of Budgetary Resources presents the DoD OIG's total budgetary resources, their status at the end of the year, and the relationship between the budgetary resources and the outlays made against them. In accordance with Federal statutes and implementing regulations, obligations may be incurred and payments made only to the extent that budgetary resources are available to cover such items.

As shown in the following table, the DoD OIG reported \$363.4 million in FY 2015 total budgetary resources.

Description	FY 2015 (\$ in millions)
Total Appropriations Reported on SBR	\$ 317.0
Unobligated Budget Authority Brought Forward from Prior Year	34.8
Spending Authority from Offsetting Collections	11.6
Total Budgetary Resources	\$ 363.4

Total appropriations of \$317.0 million are reported on the SBR.

Additional budgetary resources include \$34.8 million of unobligated balances stemming from prior year budget authority and \$11.6 million in spending authority from offsetting collections.

Of the \$363.4 million in total budgetary resources, \$322.9 million was obligated and \$304.8 million of obligations were disbursed. Expired appropriations remain available for valid upward adjustments to prior year obligations but are not available for new obligations.

Financial Performance Summary

This table represents the DoD OIG's condensed financial position, results of operations, and budgetary resources, and includes comparisons of financial balances from the current year to the prior year.

The lack of auditable prior year financial data limits the DoD OIG's ability to explain all material variances presented in the comparative statements. Nevertheless, the data underlying the amounts was successfully used to manage the DoD OIG's operations.

<i>Dollars in Millions</i>	FY 2015	FY 2014	Change	% Change
Fund Balance with Treasury	\$ 102.9	\$ 94.7	\$ 8.2	8.7%
Accounts Receivable	0.5	0.2	0.3	150.0%
Other Assets	0.4	0.3	0.1	33.3%
Total Assets	\$ 103.7	\$ 95.2	\$ 8.6	9.0%
Accounts Payable	\$ 3.7	\$ 2.4	\$ 1.2	54.2%
Other Liabilities	35.4	33.9	1.5	4.4%
Military Retirement and Other Federal Employment Benefits	10.7	11.4	(0.7)	-6.1%
Total Liabilities	\$ 49.8	\$ 47.7	\$ 2.1	4.4%
Total Net Position (Assets Minus Liabilities)	\$ 54.0	\$ 47.5	\$ 6.5	13.7%
Total Financing Sources	328.4	324.9	3.5	1.1%
Less Net Cost of Operations	(314.3)	(325.8)	11.5	-3.5%
Net Change of Cumulative Results of Operations	14.1	(0.9)	15.0	1,666.7%
Total Budgetary Resources	\$ 363.4	\$ 355.6	\$ 7.8	2.2%

VII. Systems, Controls, and Legal Compliance

DoD OIG Systems

The DoD OIG relies on a variety of DoD systems to record, summarize, and report its financial information. These include the following:

- Washington Allotment and Accounting System (WAAS)
- Defense Departmental Reporting System (DDRS)
- Headquarters Accounting and Reporting System (HQARS)

- Chief Financial Officers Load Reconciliation System (CLRS)

DoD's systems are not in full compliance with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA). To ensure the DoD-wide critical accounting, finance, and feeder systems comply with Federal financial management requirements, DoD established the Senior Financial Management Oversight Council.

Due to the complexity and number of systems DoD uses to process its financial transactions and prepare its financial statements, it will take some time for DoD to make its financial accounting systems fully compliant with applicable laws and regulations, including FFMIA.

Management Assurances

The DoD OIG's transactions are executed in accordance with budgetary and financial standards and other requirements, are consistent with the purpose authorized, and are recorded in accordance with Federal Accounting Standards, U.S. GAAP, and Statements of Federal Financial Accounting Standards. Assets are properly acquired, used, and safeguarded to deter theft, accidental loss, unauthorized disposition, and fraud. Performance measurements are adequately supported.

The DoD OIG's senior management evaluated the system of internal controls in effect during the fiscal year ended September 30, 2015, in accordance with OMB Circular A-123 "Managements Responsibility for Internal Control", revised August 1, 2005. The OMB guidelines were issued in conjunction with the Comptroller General of the United States, as required by the Federal Managers' Financial Integrity Act of 1982 (FMFIA). This evaluation of internal controls determined whether the DoD OIG complied with the standards prescribed by the Comptroller General.

The objectives of the DoD OIG's system of operational administrative control are to provide the reasonable assurance of:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting,
- Compliance with applicable laws and regulations,
- Compliance of financial information systems with the Federal Financial Management Improvement Act (FFMIA) of 1996 (Public Law 104-208).

The results indicated that the DoD OIG's operational internal controls and internal controls over financial reporting, in effect during the fiscal year ended September 30, 2015, provided a qualified statement of assurance. Other than six material weaknesses identified, the internal controls were operating effectively and meet the objectives of the FMFIA.

VIII. Performance Goals and Objectives Strategic Plan

The DoD OIG's Strategic Plan supports DoD's mission, including priorities identified by the Secretary of Defense. The strategic plan supports larger DoD goals and addresses management challenges identified by the DoD OIG and the GAO as high-risk areas.

The goals of the Strategic Plan are to provide independent, objective, and relevant information to DoD, Congress, other Government agencies, and the public; promote ethics and integrity within DoD; prevent and detect fraud, waste, and abuse; ensure accountability for mission accomplishment and for strategic human capital management and merit system principles; and improve the planning and use of DoD OIG resources to ensure the provision of relevant and timely information to senior-level decision makers on critical issues. The DoD OIG complies with the Government Performance and Results Act of 1993, as amended, and tracks goal attainment to measure progress and results to ensure a return on investment of taxpayer dollars. One of the key methods of monitoring performance is the compilation of the DoD OIG's quarterly performance report, which assesses each functional component in six categories: (1) timeliness of projects; (2) coverage of key areas, such as the DoD Transformation Priorities and the DoD OIG's identified management and performance challenges; (3) return on investment; (4) external engagement; (5) budget; and (6) personnel. In addition to the DoD OIG quarterly performance report, each Component maintains its own individual system for monitoring performance.

Strategic Goals

The DoD OIG has identified four strategic goals, and key objectives corresponding to those goals, in its Strategic Plan.

Goal 1: Promote economy, efficiency, and effectiveness.

Objectives:

Identify potential risks and systemic weaknesses in critical DoD programs and operations, and recommend solutions for areas of vulnerability, with an emphasis on those that risk the life and safety of stakeholders.

Identify and promote the DoD OIG best practices across programs and operations to encourage economy, efficiency, and effectiveness.

Provide timely and relevant feedback to the Department through high-impact DoD OIG products resulting in improvements in program and operational performance.

Assist DoD in improving the security over, and accuracy of, its accounting and performance information.

Goal 2: Identify, deter, and investigate fraud, waste, and abuse.

Objectives:

Increase timeliness and relevance of audits, investigations, inspections and reviews; conduct follow-up reviews to assess implementation. Communicate success stories serving as a deterrent to potential fraud, waste, and abuse.

Increase identification of potential areas of fraud, waste, and abuse affecting the programs and operations of the Department and risk the life and safety of those we support.

Goal 3: Engage, enable and empower our people.

Objectives:

Invest in our people by promoting individual development and providing resources and support which enables success.

Invest in the organization by ensuring the DoD OIG resources meet current and future challenges.

Goal 4: Achieve excellence through unity.

Objectives:

Align component Strategic Plans and performance metrics with the DoD OIG Strategic Plan.

Enhance and sustain a results-oriented, high performance culture within the DoD OIG.

Develop an inclusive culture for organizational planning.

IX. Results

Audit

A prime objective of the Audit Strategic Plan is to assess the risks and weaknesses in the Department and recommend the development or strengthening of management practices and controls to ensure the efficient use of resources and to promote effective operations. Two key measures of Audit's success are the identification of potential monetary benefits and the concurrence rate on audit recommendations correcting deficiencies. In FY 2014, ODIG-AUD oversight identified over \$149 million in potential monetary benefits. Some audits, rather than identifying monetary benefits, provided recommendations to address deficiencies in critical areas such as the quality assurance and testing of equipment and parts; protecting against cyber threats; redistribution and accountability of assets from the field; improvements in contingency contracting to reduce the potential for fraud, waste, and abuse; and force readiness.

The Acquisition, Parts, and Inventory Directorate identified significant problems in major

systems contract management and contractor oversight, management of weapon system acquisitions and spare parts (including determination of fair and reasonable pricing for spare parts), and existence and use of excess Government-owned inventory. Oversight in these areas has historically generated significant return on investment in the form of realized monetary benefits and funds put to better use. For example, the Acquisition, Parts, and Inventory Directorate identified that DoD did not effectively manage the cost, schedule, and performance of major and non-major acquisition programs, which resulted in cost increases and program delays. Acquisition, Parts, and Inventory has also identified unnecessary acquisition of major systems.

The Contract Management and Payment Directorate identified additional efficiencies within the DoD \$4.2 billion Permanent Change of Station Program, as well as improper payments and inventory of contracts for service. The following controls were recommended for implementation: ensure the Services are tracking and managing non-temporary storage entitlements; the Army improves oversight to prevent overpayments for Service members who exceed their household-goods weight limit; personnel property shipping office personnel use the most cost-effective method to accomplish domestic moves weighing 1,000 pounds or less; DoD impose weight limits for household-goods shipments during certain local moves; DoD use the most cost-effective mode of transportation for all overseas PCS moves; and DoD consider implementing a statutory incentive to allow Service members to voluntarily reduce the weight of shipped household goods and receive a portion of the savings. DoD and the Services could realize additional efficiencies and savings after implementation.

The Readiness and Cyber Operations Directorate focused on areas of special interest to the SECDEF or Congress and on areas with high risk or high impact. Those areas included the cyber workforce, cyber security and operations, global logistics, military construction, workplace violence, and individual and unit readiness and training. Readiness and Cyber Operations Directorate auditors identified additional improvements the Naval Supply Systems Command could make to identify and manage zero-demand stock items by identifying inventory without a valid requirement for disposal. By doing so, funds previously used to pay for storing inventory without a valid requirement could be used more efficiently. As a result, the Naval Supply Systems Command could put \$90,835 annually to better use. Readiness and Cyber Operations Directorate also continued its Overseas Contingency Operation work.

The Financial Management and Reporting Directorate again limited its financial-statement audit work based on management representations concerning financial statement reliability. Financial Management and Reporting Directorate continued to focus on audits related to the Department's plan to achieve audit readiness of the General Fund Statement of Budgetary Resources (SBR), and will focus on all DoD financial statements by the end of FY 2017. The Department plans to limit the scope of the FY 2015 SBR General Fund audits to the Schedule of Budgetary Activity, which will include current year appropriation activity and transactions from prior year activity. Financial Management and Reporting Directorate also coordinated with the OSD Financial Improvement and Audit Readiness (FIAR) Office on an Audit Services Acquisition Strategy, designed to prepare the Department to undergo a full financial statement audit by congressionally mandated timelines.

The auditors issued disclaimers of opinion on the DoD Agency-wide and Special Purpose FY 2013 financial statements and six of the components' statements supporting the Agency-wide statements. The auditors transmitted the independent public accounting firms' unmodified opinion on the financial statements of the Army Corps of Engineers, the Military Retirement Fund, and TRICARE Management Activity's Contract Resource Management, and a qualified opinion on the DoD Medicare Eligible Retiree Health Care Fund. Due to previously identified difficulties with DoD system implementation efforts, audits were conducted on additional DoD business-systems modernization efforts, including the enterprise resource planning systems, an examination of Army's general equipment, and an examination of the Navy's representation of audit readiness related to ordnance.

Investigations

The Defense Criminal Investigative Service (DCIS) uses several methods to evaluate performance. DCIS established a performance metric that 80 percent of the investigative caseload must be focused in its priority areas of fraud investigations, public corruption, technology protection, healthcare and cybercrimes. Another DCIS performance metric is at least 85 percent of total man-hours must be attributed to investigations within these DCIS priority areas. DCIS also monitors arrests, indictments and criminal charges, convictions, fines, recoveries, restitution, suspensions and debarments, to ensure consistency in effort and historical output, and the effective use of its valuable investigative resources.

DCIS investigations resulted in total investigative receivables and recoveries of \$1,743,198,202 for the U.S. Government (which includes recovered Government property, civil judgments/settlements, criminal fines, penalties, restitution ordered, and administrative recoveries), 76 arrests, 216 criminal charges, 195 criminal convictions, and contributions to 110 suspensions and 110 debarments of contractors. DCIS conducted the following major investigations in FY 2014: Janssen Pharmaceutical Products (\$1.2 billion government recovery), Scios, Inc. (\$156 million government recovery), Amedisys, Inc. (\$123.6 million government recovery), Carefusion Corporation (\$28.8 million government recovery), and J-M Manufacturing Company, (\$22.5 million government recovery). Criminal and civil investigations often lead to additional undertakings initiated by the DOD OIG or directed by Congress, the Office of the Secretary of Defense, and the Department of Justice. The publicity of these major investigations also result in increased crime reporting.

Administrative Investigations

ODIG-AI continued an organizational transformation to achieve its vision of being the model administrative investigation organization in the Federal government. Building on prior-year recruitment and restructuring efforts, significant efforts were expended on training DoD IG and Military Service IG investigators, developing performance metrics for timeliness and quality, and deploying the next generation case activity tracking system (D-CATS).

ODIG-AI closed 1,164 reprisal investigations. Of this total, 737 were dismissed due to insufficient evidence to warrant an investigation, 68 were withdrawn, and 359 were closed following full investigations. A total of 66 reprisal cases were substantiated. In addition, a total of 791 senior official complaints were closed. Of this total, 529 were dismissed due to

the lack of a credible allegation of misconduct and 262 were closed following investigation. A total of 76 cases contained substantiated allegations of misconduct. Additionally, the Defense Hotline received a total of 11,591 contacts.

In FY 2015, ODIG-AI closed 1,172 whistleblower reprisal complaints. Of this total, 731 were dismissed due to insufficient evidence to warrant an investigation, 79 were withdrawn, and 362 were closed following a full investigation. A total of 61 reprisal cases were substantiated. In addition, a total of 862 senior official complaints were closed. Of this total, 620 were dismissed due to the lack of a credible allegation of misconduct and 242 were closed following investigation. A total of 64 cases contained substantiated allegations of misconduct. The Defense Hotline received 11,864 contacts.

Training initiatives included a DoD IG Basic Whistleblower Reprisal Investigator Course that was attended by investigators from the DoD OIG, the Military Services, the Combatant Commands and Defense Agencies. The curriculum included whistleblower statutes, intake processes, interviewing, investigative planning, report writing, report quality assurance processes, and DoD IG oversight and case closure procedures. AI also hosted its fifth Semi-Annual Symposium attended by 200 personnel from the DoD, Military Service and Defense Agency Offices of Inspector General. The symposium included guest speakers, a Military Service Inspector General panel, and track sessions covering topics of interest relating to sexual assault, whistleblower reprisal, and senior official investigations.

ODIG-AI also placed increased emphasis on performance measures, and developed new metrics for timeliness and quality. Metrics were developed for the life-cycle of the investigation including intake process, the planning process, field work, first draft report of investigation, and total days to close. In addition, new metrics were developed to measure the quality of investigations for compliance with CIGIE professional standards, the completeness of documentation and the completeness, currency and accuracy of data. These measures were examined during internal controls testing, and reported on a quarterly basis to the Inspector General.

ODIG-AI established a Quality Assurance position to perform independent reviews of reports of investigation and special reviews for compliance with CIGIE standards and GAGAS for accuracy, documentation, thoroughness, and objectivity. The reviews include evidence, source documents and witness testimony supporting factual statements in reports to certify the factual accuracy and supportability of information, conclusions and recommendations. The Quality Assurance position is also responsible for internal controls testing, identifying systemic weaknesses, and recommending improvements to controls.

A significant part of the ODIG-AI transformation has been realized with the deployment of D- CATS, the next generation case activity tracking system. The deployment has enabled ODIG- AI to transform to a paperless environment by employing functionalities for data, documentation, dashboards and reports. This has resulted in efficiencies in the investigation process and cost savings in the purchases of paper and case folders. Moreover, the system was developed jointly with the DoD Hotline which has resulted in increased efficiencies and timeliness in the transmittal of complaints and other documentation between the two offices. Because of the demonstrated efficiencies realized, the DoD OIG submitted D-CATS for approval as a DoD business system to be deployed as

an IG Enterprise System to the Military Services. This will achieve further efficiencies in transmitting cases throughout the Department of Defense, as well as cost savings by avoiding the stovepipe development of next generation systems by the Military Services.

Policy and Oversight

ODIG-P&O operations are evaluated based on outcomes from evaluating significant DoD programs and operations, significance and quality of audit and investigative policies issued, contractor disclosures processed, subpoenas processed, timeliness and quality of technical support provided, positive impact on draft DoD policy issuance coordination, and follow-up of Defense Contract Audit Agency (DCAA) report recommendations. In FY 2014, ODIG-P&O issued 22 reports, 10 Notices of Concern, processed 660 subpoenas, provided technical support to 5 DOD IG audit and investigative projects, and managed the DOD IG's policy coordination process for 365 DoD policy issuances.

APO issued three Hotline reports; six external quality control reviews of Defense organizations' audit operations; and two single audit quality control reviews. APO also issued five Notices of Concern. APO performed 165 desk reviews of single audit reports covering \$4.5 billion in DoD funds and issued 92 memorandums that identified 102 findings and \$25.2 million in questioned costs. APO administered the peer review program for DoD audit organizations, encompassing oversight of peer reviews of DoD audit organizations (seven completed at National Reconnaissance Office, U.S Special Operations Command, Naval Exchange Command, Army Audit Agency, Special Access Program Audits, and the Service Audit Agencies). APO provided oversight of contracting officers' actions related to 2,406 open and closed contract audit reports, that identified more than \$12 billion in potential savings and the contracting officers disallowed costs totaling \$463.0 million in response to \$1,022.7 million of questioned costs. In addition, APO issued 21 report recommendations and participated in nine working groups, including the Procurement Fraud Working Group, Council on the Inspectors General on Efficiency and Integrity Process Oversight Work Group for Inspections and Evaluations External Reviews, and National Single Audit Coordinators.

IPO produced: DoD 5100.86, "DoD Forensic Science Committee," April 18, 2014; DoDI 5525.12, "Implementation of the Law Enforcement Officers Safety Act of 2004," February 13, 2014; DoDI 7050.05, "Coordination of Remedies for Fraud and Corruption related to Procurement Activities," May 12, 2014; DTM 14-002, "The Establishment of Special Victim Capability Within the Military Criminal Investigative Organizations," February 11, 2014.

IPO also collaborated with the Military Criminal Investigative Organizations to address National Defense Authorization Act requirements for evidence retention on sexual assault investigations and the development of special victim capability units. In addition, they participated with various DoD and other government agencies such as the Defense Enterprise Wide Working Group and the DoD Sexual Assault Prevention and Response Office to facilitate the development of criminal investigative policy. The Contractor Disclosure Program (CDP) office evaluated more than 200 disclosures concerning certain violations of criminal law, violations of the civil False Claims Act, and suspected counterfeit/non-conforming parts discovered during the contractors' self-policing activities.

The CDP office oversaw and directed coordinated courses of administrative, civil, and criminal actions for the disclosures with the Department of Justice Commercial Litigation Branch (Fraud Section), Defense Criminal Investigative Organizations (DCIOs), Defense and Service audit agencies, and the Services' Offices of Procurement Fraud Remedies and Acquisition Integrity. In addition, the CDP office evaluated more than 40 DCAA Forms 2000, Suspected Fraud and Irregularity Reports. In consultation with the Department of Justice Commercial Litigation Branch (Fraud Section) and DCAA auditors, the CDP referred these matters to the DCIOs for criminal investigation determinations.

The DOD OIG Subpoena Program issued 660 subpoenas. IPO also trained 350 criminal investigators and attorneys from other DoD agencies. IPO training was integrated into DoD and military service basic and advanced criminal investigative training courses which allows students to use the subpoena as an investigative tool with good success. IPO also hosted the Federal Law Enforcement Training Center's Continuing Legal Education Training Program Course for DoD and other Federal agency investigators and attorneys. IPO conducted, initiated or completed projects evaluating DoD adult sexual assault investigations, child sexual assault investigations, Defense Incident Base Reporting System, DoD compliance with the Sexual Offender Registration and Notification Act, DNA Collection Requirements for Criminal Investigations, MCIO Compliance with the Lautenberg Amendment, and an evaluation of sensitive position screening for criminal investigators assigned to conduct sex crime investigations.

The Technical Assessment Directorate (TAD) issued five reports: Assessment of Military Housing in Japan, Assessment of Military Housing in the Republic of Korea, Quality Assurance and Reliability Assessment of the Missile Defense Agency's Exoatmospheric Kill Vehicle, Assessment of Government Quality Assurance for DoD Acquisition Programs, and Assurance Policy Review for Spacecraft and Strategic Systems.

TAD also initiated five Notices of Concern to address immediate safety and environmental issues for military housing in Japan and the Republic of Korea. The Notices of Concern required immediate attention by the Service organizations responsible for operations and maintenance of accompanied and unaccompanied housing used by Warfighters and their families.

In addition, TAD provided engineering support to five DOD OIG projects: Audit of DoD DAM Safety Inspections, Audit of the Acquisition of the Army Integrated Air and Missile Defense Program, Audit of the Air Force MQ9 Unmanned Aircraft System Reaper, Audit of the Navy Ship-to-Shore Connector Program, and Audit of Requirements and Contract Oversight of Military Construction Projects at Camp Lemonnier, Djibouti, Africa.

Intelligence and Special Program Assessments

ODIG-ISPA continued to follow-up on the effectiveness of the contractor personnel security clearance process at the four defense intelligence agencies. Because of heightened Congressional interest, ODIG-ISPA evaluated DoD Unmanned Aerial Systems support to domestic civil authorities. At the operational level, ODIG-ISPA assessed the impact of the degradation of the Defense Intelligence Enterprise's long-term intelligence analytic capabilities on the support to campaign planning and acquisition program requirements.

ODIG-ISPA completed an evaluation of Intelligence training and education programs to determine if they are providing the DoD intelligence workforce the fundamental competencies necessary to perform their duties. Additionally, ODIG-ISPA investigated specific mission areas to ensure the protection of sensitive information and operations.

ODIG-ISPA assessed DoD Processes in Support of the Committee on Foreign Investment in the United States Determinations and Foreign Ownership, Control, or Influence Mitigation, and counterintelligence support to in-transit force protection.

ODIG-ISPA led efforts on Public Law 111-258, "The Reducing Over-Classification Act." ODIG-ISPA was asked by the Council of Inspectors General on Integrity and Efficiency to lead the federal government effort on this congressionally mandated project.

ODIG-ISPA led a Council of Inspectors General on Integrity and Efficiency project to develop a government-wide common framework to determine the level of protection provided to the most sensitive and cutting-edge technologies, where billions of dollars are invested. This project developed a standard assessment guide and associated inspection checklist, with the intent of ensuring that future assessments follow a consistent methodology to allow for cross-agency comparisons. Each participant assessed their own department to determine the reliability of the evaluation guide and corresponding inspection guidelines. The team also assessed future use of the Militarily Critical Technologies/Developing Scientific Technologies lists.

The DOD OIG continues to identify the Nuclear Enterprise as one of the Department's management challenges. ODIG-ISPA issued reports on the nuclear command and control crypto modernization effort, accountability of the Air Force's classified inventory of nuclear weapons related material, and a hotline report on a proposal to eliminate the U.S. Nuclear Command and Control System Support Staff. There are ongoing projects related to DoD requirements for nuclear gravity weapon delivery and nuclear weapon accident/incident response task force capability.

ODIG-ISPA assessed the Fixed Submarine Broadcast System site infrastructure. ODIG-ISPA also conducted research on the mission capabilities of U.S. nuclear-capable fighters. One of the ODIG-ISPA goals was to establish a Nuclear Enterprise Oversight Coordination Group. This group will consist of representatives from organizations that have nuclear enterprise oversight responsibilities, as well as will be used to coordinate oversight activities and keep abreast of developments with the nuclear enterprise community.

DoD Directive 5205.07, "Special Access Program (SAP) Policy," July 1, 2010, requires the Department of Defense Office of Inspector General, "maintain a sufficient dedicated cadre of SAP-trained personnel to perform inspection, investigation, evaluation, and audit functions for DoD SAPs and SAP-related activities."

ODIG-ISPA has performed audits and evaluations that were both self-initiated and requested by the Director, DoD Special Access Program Central Office. The types of audits performed include performance audits of major acquisition programs, information technology, intelligence, security, systemic issues, and organizational reviews to ensure

compliance with DoD directives, policies, guidance and internal operating instructions. ODIG-ISPA also performed assessments of several intelligence SAPs. ODIG-ISPA performed three classified program and acquisition audits regarding issues that included contracting, procurement, testing, security, and program management. All projects supported SecDef or OIG mission priorities or management challenges, such as Intelligence Community Information Technology Enterprise (ICITE) and associated contracts and program management.

Special Plans and Operations (SPO)

Because of a 2008 Congressional request for assistance, ODIG-SPO has been conducting an ongoing series of assessments to determine whether the DoD programs for the care, management, and transition of recovering service members wounded during deployment to Iraq or Afghanistan are managed effectively and efficiently.

The ODIG-SPO published the "Assessment of Wounded Warrior Matters: Managing the Risks of Multiple Medications." This report examined the policies related to reducing adverse drug events, such as unanticipated side effects, decreased drug effectiveness, accidental overdose and death. It also examined procedures related to disposing medications that are expired or no longer needed for treatment.

The ODIG-SPO also published the "Assessment of DoD Wounded Warrior Matters: Selection and Training of Warrior Transition Unit and Wounded Warrior Battalion Leaders and Cadre" to determine whether the U.S. Army and Marine Corps had policies and procedures in place to ensure the selection and training of appropriately qualified personnel to fill leadership and cadre positions for Army Warrior Transition Units and Marine Corps Wounded Warrior Battalions.

The ODIG-SPO assessed the DoD Suicide Event Report (DoDSER), a standardized database used by the military services as the "system of record" for reporting suicide behavior, to determine the extent that incomplete or inaccurate data from the DoDSER may have been used when making program or policy decisions on suicide prevention efforts.

ODIG-SPO initiated the project "Assessment of DoD-Provided Healthcare for Members of the United States Armed Forces Reserve Components." This project aims to determine whether DoD-provided healthcare supports DoD established Guard and Reserve pre- deployment medical readiness rates, and whether DoD-provided healthcare supports efficient and effective post-deployment care for Guard and Reserve members who become wounded, ill, or injured while on active duty.

In response to a Congressional request in the 2013 NDAA, ODIG-SPO issued a report "Assessment of Arlington and Soldiers' and Airmen's Home National Cemeteries" to assess the implementation of new guidance from the Department of Army. ODIG-SPO also published "Section 847 Ethics Requirements for Senior Defense Officials Seeking Employment with Defense Contractors", which addressed (1) the central database and DoD OIG oversight provisions of Public Law 110-181, "The National Defense Authorization Act for Fiscal Year 2008," Section 847, "Requirements for Senior Department of Defense Officials Seeking Employment with Defense Contractors," January 28, 2008; and (2) subsequent

direction from the House Armed Services Committee.

ODIG-SPO published the "Assessment of the Armed Forces Retirement Home," addressing all aspects of the facilities in Washington, DC and Gulfport, MS to determine compliance with applicable laws and regulations, and reviewed the concerns of the Advisory Council, the Resident Advisory Committees, and the residents. This project yielded over 130 recommendations for implementation over a broad array of functional areas within both retirement homes.

ODIG-SPO published the capping report on the DoD Combating Trafficking in Persons program. The report summarized findings resulting from the multi-year review which began in 2009, in response to the requirement for the Inspectors General of the Department of Defense, Department of State (DoS), and United States Agency for International Development (USAID) to investigate a sample of contracts for which there was a heightened risk that contractors may engage in acts related to trafficking in persons.

ODIG-SPO published its report, "Assessment of the Department of Defense Prisoner of War/Missing in Action Accounting Community" to assess the Department's programs and practices concerning the identification and repatriation of the remains of the Nation's missing-in-action from past armed conflicts. This included the overall accounting community organization and effectiveness, issues raised about possible inappropriate official travel, and allegations made by past and present personnel assigned to the mission concerning poor leadership and mismanagement. In addition, other deficiencies related to the administration of programs carried out by the Defense POW/Missing Personnel Office, Joint POW-MIA Accounting Command, and other members of the accounting community that have or could impede its ability to accomplish the identification and repatriation mission.

OVERSEAS CONTINGENCY OPERATIONS

The ODIG-OCO provided oversight of three contingency operations: Operation Inherent Resolve, Operation Freedom Sentinel, and Operation United Assistance. In addition, ODIG-OCO established the Lead IG Hotline in May 2015.

The United States, with its coalition partners, seeks to degrade and destroy the terrorist group known as the Islamic State of Iraq and the Levant (ISIL). The U.S. strategy involves several agencies, for a whole-of-government approach, and multiple lines of effort, including but not limited to denying ISIL safe haven, preventing the flow of funds and fighters to ISIL, addressing humanitarian crises in the region, and exposing ISIL's true nature.

On October 15, 2014 the U.S. Central Command announced that U.S. military operations in Iraq and Syria against ISIL terrorists be designated as Operation Inherent Resolve (OIR). On October 17, 2014, the Secretary of Defense designated OIR a contingency operation.

Since October 1, 2014, under the leadership of the DoD IG, the Lead IG agencies have continued to oversee OIR, and

- made public the FY 2015 Joint Strategic Oversight Plan (JSOP) for Operation Inherent Resolve, and continue to plan and coordinate comprehensive strategic oversight to adapt to the changing nature of the operation.
- coordinated with other OIGs involved in the U.S. strategy to defeat ISIL to encourage their oversight activities.
- issued Lead IG reports in April and August 2015 that provided quarterly updates on OIR. The April report provided the biannual oversight update on the execution of audits, inspections, and investigations by the Lead IG agencies and other OIGs.
- identified staffing needs and began hiring individuals to contribute to the planning, oversight, and reporting responsibilities of the Lead IG.

The U.S. renewed its commitment to Afghanistan to help build and sustain an enduring security capability, but has transitioned to a new phase. The new overseas contingency operation that began on January 1, 2015, Operation Freedom's Sentinel (OFS), provides the framework for continued U.S. support. OFS has two complementary missions: U.S. forces (1) continue counterterrorism efforts against the remnants of al-Qaeda in Afghanistan to prevent its resurgence and its plotting against U.S. targets, including the homeland, and (2) conduct a train, advise, and assist program to improve the capabilities and long-term sustainability of the Afghan National Defense and Security Forces under NATO's Resolute Support mission.

Under the leadership of the DoD OIG and the Lead IG agencies began coordinated oversight of OFS, by

- updating the joint strategic planning process and developing a comprehensive oversight plan to reflect the efforts of various oversight partners in this unstable region. In particular, the Lead IG agencies coordinated with other OIGs, including SIGAR, to provide coordinated oversight in Afghanistan to deter waste, fraud, and abuse and promote effective stewardship of taxpayer dollars.
- issuing a Lead IG report in August 2015 that provided a quarterly update on OFS.
- hiring individuals to contribute to the planning, oversight, and reporting responsibilities of the Lead IG.

According to public health officials, the Ebola epidemic in West Africa infected more than 28,000 people and led to more than 11,300 fatalities. National health care systems and economies in Liberia, Sierra Leone, and Guinea were severely impacted. As a potential global health threat, the Ebola virus disease outbreak spurred a U.S. Government response that has been significant in size, scope, and cost. Several Federal departments and agencies, including the Department of Health and Human Services (HHS), were involved in the whole-of-government response strategy for reducing Ebola transmission in West Africa, as well as efforts to address second order effects and better prepare international health systems for future outbreaks of this kind.

On October 16, 2014, the President issued an Executive Order to authorize the Secretary of Defense to order Reserve units and Individual Ready Reserve Members to active duty in support of Operation United Assistance (OUA). The Secretary exercised this authority on November 13, 2014, and, in turn, the U.S. Army issued mobilization orders on November

25, 2014.

The DoD IG was designated as Lead IG for OUA, who, in turn, appointed the Acting Deputy IG for USAID the Associate IG. The Associate IG engaged the participation of the Health and Human Services OIG. Under the primary leadership of the Associate IG, the Lead IG actions included:

- issuing Lead IG reports in May and August 2015 that provided quarterly updates on OUA and the Ebola crisis. The August report provided a biannual oversight update on the execution of audits, inspections, and investigations by these IG organizations, and
- undertaking a joint planning effort to ensure strategic, comprehensive oversight of the international response to the Ebola outbreak continues.

The Department of Defense was informed that the President directed the termination of OUA, effective June 30, 2015.

Lead IG Hotline operations began in Kuwait in May 2015. This is the first DoD OIG–supported hotline to deploy to a forward location. In June 2015, the Inspectors General for DoD, DoS, and USAID signed a memorandum of agreement to codify the reporting processes and procedures for the Lead IG Hotline.

The Lead IG OCO Hotline was established as a single point of contact for compiling and reporting DoD, DoS, and USAID OIR complaints. While each agency is responsible for processing the OIR complaints they receive, the DoD Hotline has the additional responsibility of collecting, maintaining, and reporting the combined efforts of all three (DoD, DoS and USAID).

Additionally, the combined agency Lead IG OCO Hotline provides a secure and confidential avenue for reporting OCO OIR complaints, which may include complaints within the jurisdiction of other Federal agencies engaged in the whole-of-government effort to degrade and defeat ISIL.

During FY 2015, the Lead IG Hotline received the following contacts and complaints:

- DoS OIG—1 complaint
- DoD IG—4 complaints
- USAID OIG—31 complaints

The Lead IG Hotline staff conducted the following activities since arriving in Kuwait.

- briefed contracting support personnel on the Lead IG Hotline at 15 commands,
- briefed more than 200 DoD civilians, contractors, and service members involved in pre- and post- contract award work on the Lead IG and risks for fraud, waste, and abuse, particularly in the use of Government purchase cards,
- established briefings on reporting wrongdoing to the Lead IG for all incoming contractors, service members, and DoD civilians arriving in Kuwait to support the OIR mission,
- began translating the DoD IG complaint form and the DoD OIG informational tri-fold into Pashto, Hindi, and Tagalog to inform foreign workers who may be unable to

speaking, reading, or writing English about how to report wrongdoing, and provided Lead IG briefs at weekly tenant meetings in Kuwait.

The ODIG-OCO also participated in the Investigations Working Group and the Hotline Working Groups. The Investigations Working Group (IWG), under the Lead IG for Operation Inherent Resolve, is a multi-agency consortium of criminal investigative agencies, formed to design and execute an investigations strategy for the Operation Inherent Resolve mission. The IWG model is structured to foster cooperation between participating agencies, and facilitate de-confliction of associated investigations.

The inaugural IWG meeting was held in March 2015. The participants in the meeting included representatives of the Lead IG investigative partners, (DoS OIG, USAID OIG and DCIS), as well as members of the Military Criminal Investigative Organizations (MCIOs) and the FBI. The participants were introduced to the Lead IG legislation and the overarching goals and objectives of the IWG. Follow-on IWG meetings enabled participants to build an investigations construct, draft rules of engagement, and identify specific roles and responsibilities for its members.

The Combined Federal and DoD Lead IG Hotline Working Group was formed to coordinate participating Hotlines to implement the whole-of-government concept. The first meeting was held in February 2015, to leverage the knowledge within the DoD and Federal hotline communities, to establish procedures for the timely and efficient processing of OIR complaints, and to develop a concerted, holistic process for responding to OIR complaints.

X. Events, Trends, and Risks

Auditing

The Acquisition, Parts and Inventory Directorate continued to focus its effort on problems with DoD weapons system procurement and parts and inventory including requirements generation and validation, system performance, and program cost and schedule, and testing. Acquisition, Parts, and Inventory places heavy emphasis on the valid acquisition of major and non-major weapons systems and use of inventory parts, including the areas of fair and reasonable pricing and use of excess inventory.

The Contract Management and Payment Directorate continued to focus on audits of contract award and administration of service contracts, Berry Amendment and Buy American purchases, Economy Act orders, and facilities construction and real property maintenance. Additionally, audits on changes to contracting regulations, DoD payments to include contract payments, improper payments, and the Government Travel and Purchase Card Programs and the military health care for active-duty, reserve, retired, and dependent personnel are planned.

The ODIG-AUD Readiness and Cyber Operations Directorate continued to focus on high-risk areas including large-scale, complex logistics systems; readiness; training; foreign military sales; cyber security; and cyber operations.

The Financial Management and Reporting Directorate (FMR) is performing the initial audits of the General Fund Schedules of Budgetary Activity for the Army, Navy, and Air Force that do not include balances from prior-year activity. DoD will begin audits of the complete Statement of Budgetary Resources only after achieving successful audits of current-year appropriation activity. Through participation in the FIAR governance board and various other meetings, the DOD OIG advises the FIAR Directorate in updating and executing the FIAR plan and FIAR guidance.

The FMR Directorate will continue to audit the Department's Schedules of Budgetary Activity and other financial-statement areas that the Department asserts are audit ready. Work will continue with the DoD components to identify deficiencies and recommend corrective actions, focusing on audits of financial statements, systems, internal controls, compliance, and other financial areas, to assist DoD in improving its overall financial management operations and, as a result, prepare auditable financial statements. As OSD and Service Components identify segments of financial statements ready for review, ODIG-AUD will announce audits or attestation engagements, as appropriate.

Investigations

DCIS will: (1) maintain a high priority on significant procurement/acquisition fraud investigations with emphasis on defective, substituted, and counterfeit products impacting the safety and mission-readiness of our warfighters; (2) continue to focus on combating corruption by ferreting out and investigating major DoD procurement fraud, including bribery, corruption, kickbacks, conflicts of interest, and major thefts; (3) continue concentration on investigations, and awareness aimed at the illegal transfer of technology, systems, and equipment critical to DoD and dangerous if in the hands of restricted nations and persons; (4) continue focus on healthcare investigations involving potential harm to DoD military members and their dependents and healthcare fraud schemes; and (5) continue defense against cyber-crimes and computer intrusions that impact DoD.

Administrative Investigations

In FY 2015, ODIG-AI continued to implement a series of programmatic strategic initiatives and employ continuous process improvement and best practices to improve the timeliness and quality of investigations. As the program office charged with responsibility for the oversight of whistleblower reprisal and senior official investigations across the department, ODIG-AI is also continuing an aggressive campaign of outreach and training to improve the performance of investigations programs across the Department of Defense. In addition, ODIG-AI is engaged in a significant effort to update the DoD-level policies and directives to implement the latest changes in whistleblower law including: 1) Presidential Policy Directive 19, "Protecting Whistleblowers with Access to Classified Information"; 2) the Whistleblower Protection Enhancement Act of 2012; and 3) the National Defense Authorization Act for FY13 amendment to Title 10, U.S.C. 2409, "Contractor Employees" and the FY14 NDAA amendments to Title 10 U.S.C. 1034, "Protected communications; prohibition of retaliatory personnel actions."

In FY 2016, ODIG-AI will continue implementing ongoing and continuous process improvement and best practices, outreach and training, and deploying D-CATS as a DoD IG

Enterprise System. These initiatives will achieve improved efficiencies, timeliness and quality in the investigations programs across the Department of Defense.

Policy and Oversight

In FY 2015, APO focused on monitoring and evaluating DCMA, including the DCMA eTool system and contracting officers' use of DCAA audit reports; and updating the DoD Audit Manual, DoD Instruction 7640.02, "Policy for Follow-up on Contract Audit Reports" and DoD Instruction 7600.10, "Audits of States, Local Governments, and Non-Profit Organizations." APO is also focusing on policy and oversight of DoD audit organizations efforts in identifying and detecting fraud, waste, and abuse including support to the Contractor Disclosure Program; and internal control and fraud assessments, guidance, and training. APO continues to update its DoD IG Fraud website, including adding additional contract audit fraud scenarios, monitor DCAA fraud referrals and efforts on contractor disclosures; and providing input to DCAA revisions to its fraud-related audit guidance. APO is performing or overseeing performance of peer reviews of the Defense Contract Management Agency, National Guard Bureau, Defense Information Systems Agency, and the National Geospatial Agency-Intelligence. APO is also reviewing relevant Defense Hotlines of DCAA and DCMA audits, reviews, management, and personnel. In the Single Audit area, APO is performing four single audit quality control reviews and one follow-up review, and continues to review all single audit reports for audit findings that require grant/contracting officer follow-up actions. In the contract audit follow-up area, APO restarted its aggressive program to review contracting officers' actions on DCAA contract audit reports. For the contract audit monitoring area, APO is again monitoring the quality of contract audits within DoD. For inspection and evaluation policy, APO is focusing on the issuance of DoD-wide policy for performing inspections and evaluations; working with other IG components to increase coordination of inspections and evaluations among DoD inspection and evaluation organizations; and increase awareness of and best practices for inspections and evaluations. This includes participation in the CIGIE pilot external review program for Inspectors General inspection and evaluation activities.

In FY 2016, APO will focus on oversight of DCAA; DoD Components' contracting officers' actions on DCAA audit report recommendations; peer reviews of DoD audit organizations; fraud related training; guidance and scenarios to update the fraud website; liaison on the Contractor Disclosure Program including related policy and oversight of DCAA; and quality control reviews on three or four Single Audit cognizant/oversight organizations. For inspection and evaluation policy, APO will continue efforts to increase awareness and quality of DoD inspections and evaluations; coordination of inspection and evaluation activities among DoD and other IG organizations; and external review processes for inspection and evaluation activities.

In FY 2015, IPO revised the following investigative policies: DoDI 5505.09, "Interception of Wire, Electronic and Oral Communications for Law Enforcement;" DoDI 5505.11, "Fingerprint Card and Final Disposition Report Submission Requirements;" DoDI 5505.14, "DNA Collection Requirements for Criminal Investigations;" DoDI 5505.18, "Investigation of Adult Sexual Assault in the Department of Defense;" and a new policy on founded/unfounded determination pertaining to sexual assault investigations as directed by the FY 2014 NDAA. The Subpoena Program Division is seeking to decrease subpoena

processing time, and is working within our constituent community to improve and manage the process of DCAA fraud referrals. IPO expects continued Congressional interest in complaints about the thoroughness of death investigations and increased oversight of sex crime investigations.

In FY 2016, IPO's work will involve evaluations of active shooter responses; criminal investigations not assigned to a DCIO; emergency transfers of sexual assault complainants; the investigative thoroughness of unsolved serious crimes; and child abuse in DoD home based and government daycare in DoD communities.

In FY 2015, TAD performed technical assessments addressing issues of concern for Congress, DoD, and the public, and prioritized those that affected life, health, and safety. This included an assessment of the C-5 Re-engining Refurbishment Program, two assessments on the F35 aircraft program, and an assessment on a major acquisition program. Similar to the Japan and Korea military housing safety and environmental health assessments performed in FY 2014, TAD performed two CONUS military housing assessments. TAD also supported DOD IG components on their audit/evaluation assist requests.

In FY 2016, TAD will perform technical assessments addressing issues of concern for Congress, DoD, and the public, and give priority to those that affect life, health and safety. In addition, TAD will perform a major military housing inspection in CONUS or OCONUS as follow-on inspections to the inspections in Japan, Korea and CONUS, conducted in FYs 2014 and 2015. TAD will also support DOD OIG components on their audit/evaluation assist requests.

Intelligence and Special Program Assessments

In FY 2015, ODIG-ISPA personnel continued to reassess oversight of defense priorities and congressional perspectives to ensure resources provide the best coverage. The ODIG-ISPA focused reviews on cyber security, acquisition and contracting within the DoD Intelligence community, and intelligence and counterintelligence programs, systems, training, and analysis and funding. In FY 2016, ODIG-ISPA will continue to evaluate stakeholder input and provide timely and relevant reports. FY 2016 reporting will also consider updates to strategic DoD guidance and updated legislative requirements. Moreover, project emphasis will consider updates in technology, changes in funding strategy, adaptations in acquisitions, updates to intelligence law and engagement and collaboration among different DoD agencies and commands as well as coalition partners.

In FY 2015, efforts focused on programs for which the intelligence agencies have responsibility to implement, as well as programmatic updates on their progress in implementing various initiatives. FY 2015 efforts included evaluating high-risk DoD Intelligence programs to identify critical vulnerabilities; an assessment of DoD Intelligence, Surveillance, and Reconnaissance reconstitution efforts; and cover support and clandestine activities. In line with DoD strategy, effectiveness related to intelligence activities post-Afghanistan as well as impacts associated with intelligence resources resulting from a rebalance to the Pacific region were evaluated.

In FY 2016, the ODIG-ISPA will continue to evaluate issues throughout the intelligence enterprise including increased awareness and utilization of the Intelligence Community Whistleblower Protection Act. ODIG-ISPA will also evaluate the implementation of insider threat initiatives as well as updated data collection procedures in response to updated legislation including the Foreign Intelligence Surveillance Act (FISA) amendments. In FY 2016, updates to policies and procedures governing Unmanned Aerial Vehicles (UAVs) and Intelligence, Surveillance, and Reconnaissance (ISR) will likely be a renewed area of oversight interest for the ODIG-ISPA.

In FY 2015, ODIG-ISPA assessed Counterintelligence (CI) Support to the Defense Critical Infrastructure Program, counterintelligence support to the protection of DoD research, development, and acquisition, and CI support to Special Operations. In FY 2015, the ODIG-ISPA continued to assess other issues throughout the counterintelligence enterprise. In FY 2016, the oversight issues will be drawn from changes to critical technologies driving updates to CI support and efforts to deter foreign intelligence adversaries. Key issues include counterintelligence support to cyberspace/forensics and changes in CI funding as well as technical surveillance countermeasures, investigation procedures and CI support to Counterterrorism.

In FY 2015, the ODIG-ISPA continued to evaluate issues throughout the security enterprise, including cyber security, expanding the results of previous outreach into the Department to determine the current posture in cyber security with an emphasis on supply chain risk management, the insider threat, and unauthorized disclosures.

In FY 2016, the ODIG-ISPA will complete the legislatively mandated second round of oversight efforts on Public Law 111-258, "The Reducing Over-Classification Act." An assessment will be conducted on the implementation efforts from the Defense Security Enterprise related to Insider Threat initiatives including Continuous Monitoring and Continuous Evaluation. DoD emphasis with information sharing will also continue to be an area of emphasis in FY 2016.

In FY 2015, the ODIG-ISPA continued to look at issues throughout the nuclear enterprise based on inputs from the U.S Strategic Command, the Joint Staff, the DoD CIO office, the Deputy Assistant Secretary of Defense for Nuclear Matters, the Defense Information Systems Agency, and the Services. Numerous vital areas need attention throughout the nuclear enterprise to ensure the recent revitalization efforts stay on track to meet Presidential direction. Other areas planned include oversight of sustainment efforts, command and control (C2) and governance.

In FY 2016, ODIG-ISPA will continue to assess strategies and programs related to nuclear surety, C2 planning and nuclear operational readiness.

In 2015, emphasis was on several operationally sensitive programs. In FY 2016, emphasis includes acquisition efforts related to the Defense Security Environment Architecture, DoD-Intelligence community capabilities integration, DoD efforts related to Intelligence Community Information Technology Enterprise as well as associated contracts and program management.

Special Plans and Operations

Section 1206 of the NDAA for FY 2006 provided the Secretary of Defense with authority to train and equip foreign military and maritime security forces to build their capacity to conduct counterterrorism and stability operations. In a self-initiated assessment, ODIG-SPO will evaluate and report on the overall effectiveness of the Section 1206 program in supporting combatant commands' counterterrorism mission and stability operations.

Biosurety is defined as the combination of security, biosafety, agent accountability, and personnel reliability needed to prevent unauthorized access to select agents of bio warfare. In FY 2015, in a self-initiated assessment, ODIG-SPO began to evaluate DoD biological surety and security oversight, as well as DoD component biological surety and security compliance with the relevant statutes and regulations.

A new project concerning DoD suicide prevention programs will: 1) evaluate DoD's processes used in the development of suicide prevention policy, and 2) determine what changes are required to improve the process for developing evidence based suicide prevention and intervention policies and programs.

SPO will also continue to assess statutorily mandated subject areas and other high-risk topics, as required, including "The Federal Voting Assistance Program/State Grants" and "Rights of Conscience of Service Members and Chaplains."

In response to a growing need to assess priority national security objectives globally, SPO will consider expanding its scope in FY 2016. Areas of interest include, and are not limited to:

- Readiness of U.S. forces in Africa, the Pacific, and the Middle East.
- Training and equipping foreign military forces
- Security Cooperation / Assistance programs worldwide
- Counter-terrorism operations
- Cyber-security
- Emerging security threats

SPO plans FY 2016 assessments in the areas of Cyber Operations and Information Security.

SPO will continue to assess critical healthcare topics, such as transition of wounded service members to the Department of Veterans Affairs, military mental health programs, and medical research activities.

Additional known projects for FY 2016 include another assessment/report in the series dealing with service member suicide and the annual assessment of "The Federal Voting Assistance Program.

OVERSEAS CONTINGENCY OPERATIONS

It is the OIG's intent to continue to work with Congressional Oversight Committees, Lead IG

partners, the Joint Staff, U.S. Central Command, U.S. Africa Command, and other oversight and law enforcement organizations to produce reports focusing on lessons learned from Operation Iraqi Freedom and Operation Enduring Freedom. ODIG-Audit will continue to focus oversight efforts on contract management, logistics, transportation, security force development, and information operations. DCIS will continue working alongside partner criminal investigative agencies to include the Federal Bureau of Investigation and the Department of Justice, to investigate and support the prosecution of fraud, corruption, and other criminal investigations. ODIG-ISPA will evaluate the effectiveness of certain programs, procedures, and functions related to security and other intelligence-related activities. ODIG-SPO will provide timely, high-value assessment reports on strategic challenges. ODIG-P&O will conduct on-site inspections. Hotline analysts have been assigned in forward locations with the necessary skill sets to be responsive to the concerns of the local population and deployed contractors, civilians, and service members.

For FY16, the OIR oversight will continue to have a regional approach and will align to the United States strategy for the nine lines of effort. Under the intelligence umbrella, FY16 emphasis will include an evaluation of insider threat, assessment of human intelligence coordination/de-confliction, and review of linguist support.

The OIG will supplement staffing requirements by fully utilizing its special hiring authority provided by title 5, United States Code (USC) section 3161 and the re-employment of annuitants as provided within section 9902 as necessary to perform the functions required of the OIG and the Lead IG. The OIG plans to retain a field office at Camp Arifjan, Kuwait to support the regional activity.

In response to the sustained effort in Afghanistan, the OIG plans to continue its in-country presence. Most of the new audit proposals for Afghanistan originate from the in-country team leaders based on their observations while on the ground. The ODIG-OCO will continue oversight of contracts, logistics, funds management, contract fraud accountability, theft, corruption, security, trafficking in persons, retrograde, and the training and equipping of the Afghan National Defense Security Forces (ANDSF, including the Afghan National Army and Afghan National Police). The Operation Freedom Sentinel Intelligence Line of Effort will be supported by subsequent evaluation phases of Syrian Opposition Monitoring and Insider Threat, as well as an assessment of support to Afghan Intelligence Training. To maintain a forward presence, the deployment and redeployment of our personnel will continue to be a critical issue warranting additional management attention and efforts. The OIG must continue to focus its oversight capabilities on contract management, the viability of the ANDSF train and equip programs, fraud, corruption, trafficking in persons, safety, and security.

The future will be even more demanding, as oversight is conducted with increasing restrictions, reduced military footprint and more limited security and medevac coverage. The OIG will continue to work with Congressional Oversight Committees, U.S. Central Command, U.S. Forces – Afghanistan, and other oversight and law enforcement organizations to conduct coordinated oversight of OFS.



OFFICE OF INSPECTOR GENERAL

AGENCY FINANCIAL REPORT

FISCAL YEAR 2015

FINANCIAL SECTION

This Page Left Blank Intentionally

PRINCIPAL FINANCIAL STATEMENTS AND NOTES

The financial statements of the DoD OIG include four principal statements listed in the table below.

The financial statements reflect the aggregate financial posture of the DoD OIG and include both the proprietary (Federal accounting standards) and budgetary resources of the DoD OIG.

Four Principal Financial Statements

Statement	What Information It Provides
Balance Sheet	Reflects the DoD OIG's financial position as of September 30, 2015. The assets are the amounts of future economic benefits owned or managed by the DoD OIG. The liabilities are amounts owed by the DoD OIG. The net position is the difference between assets and liabilities.
Statement of Net Cost	Shows separately the components of the net cost of the DoD OIG's operations for the period. Net cost is equal to the gross cost incurred by the DoD OIG less any exchange revenue earned from its activities.
Statement of Changes in Net Position	Presents the sum of the cumulative results of operations since inception and unexpended appropriations provided to the DoD OIG that remain unused at the end of the fiscal year. The statement focuses on how the net cost of operations is financed. The resulting financial position represents the difference between assets and liabilities as shown on the consolidated balance sheet.
Statement of Budgetary Resources	Provides information about how budgetary resources were made available as well as their status at the end of the period. It is the only financial statement exclusively derived from the DoD OIG's budgetary general ledger in accordance with budgetary accounting rules. The Statement of Budgetary Resources is the only principal financial statement prepared on a combined versus consolidated basis. As such, all intra-entity transactions are included in the balances reported in the statement.

Consolidated Balance Sheet Office of the Inspector General		<i>Dollars in Thousands</i>	
As of September 30, 2015 and 2014	2015 Consolidated	2014 Consolidated (Unaudited)	
ASSETS (Note 2)			
Intragovernmental:			
Fund Balance with Treasury (Note 3)	\$ 102,899.7	\$ 94,694.8	
Accounts Receivable (Note 5)	445.4	196.6	
Other Assets (Note 6)	1.9	(5.9)	
Total Intragovernmental Assets	\$ 103,347.0	\$ 94,885.5	
Cash and Other Monetary Assets (Note 7)	114.0	64.0	
Accounts Receivable, Net (Note 5)	11.8	23.6	
Other Assets (Note 6)	250.0	250.0	
TOTAL ASSETS	\$ 103,722.8	\$ 95,223.1	
LIABILITIES (Note 11)			
Intragovernmental:			
Accounts Payable (Note 12)	\$ 3,251.8	\$ 1,585.7	
Other Liabilities (Note 15)	3,584.8	3,630.7	
Total Intragovernmental Liabilities	\$ 6,836.6	\$ 5,216.4	
Accounts Payable (Note 12)	409.6	861.2	
Military Retirement and Other Federal Employment Benefits (Note 17)	10,718.7	11,410.2	
Other Liabilities (Note 15)	31,810.6	30,236.2	
TOTAL LIABILITIES	\$ 49,775.5	\$ 47,724.0	
NET POSITION			
Unexpended Appropriations – Other Funds	\$ 70,554.3	\$ 78,182.2	
Cumulative Results of Operations – Other Funds	(16,607.0)	(30,683.1)	
TOTAL NET POSITION	\$ 53,947.3	\$ 47,499.1	
TOTAL LIABILITIES AND NET POSITION	\$ 103,722.8	\$ 95,223.1	

Consolidated Statement of Net Cost Office of the Inspector General		<i>Dollars in Thousands</i>	
For the Years Ended September 30, 2015 and 2014		2015 Consolidated	2014 Consolidated (Unaudited)
Program Costs			
Gross Costs	\$	324,448.4	\$ 332,449.0
Operations, Readiness & Support		323,827.6	330,307.1
Other		620.8	2,141.9
(Less: Earned Revenue)		(10,103.9)	(6,676.4)
Net Cost of Operations (Note 18)	\$	314,344.5	\$ 325,772.6

Consolidated Statement of Changes in Net Position		
Office of the Inspector General		
<i>Dollars in Thousands</i>		
For the Years Ended September 30, 2015 and 2014	2015 Consolidated	2014 Consolidated (Unaudited)
Cumulative Results Of Operations		
Beginning Balances	\$ (30,683.1)	\$ (29,803.1)
Budgetary Financing Sources:		
Appropriations used	314,502.3	311,433.1
Other Financing Sources		
Imputed financing	10,145.9	13,465.6
Other	3,772.4	(6.1)
Total Financing Sources	\$ 328,420.6	\$ 324,892.6
Net Cost of Operations (+/-)	(314,344.5)	(325,772.6)
Net Change	\$ 14,076.1	\$ (880.0)
Cumulative Results of Operations	\$ (16,607.0)	\$ (30,683.1)
Unexpended Appropriations		
Beginning Balances	78,182.2	67,633.3
Budgetary Financing Sources:		
Appropriations received	322,453.0	326,766.0
Appropriations transferred in/out	(5,416.0)	80.0
Other adjustments	(10,162.6)	(4,864.0)
Appropriations used	(314,502.3)	(311,433.0)
Total Budgetary Financing Sources	\$ (7,627.9)	\$ 10,548.9
Unexpended Appropriations	\$ 70,554.3	\$ 78,182.3
Net Position	\$ 53,947.3	\$ 47,499.2

Combined Statement of Budgetary Resources Office of the Inspector General For the Years Ended September 30, 2015 and 2014 Page 1 of 2 <i>Dollars in Thousands</i>	Budgetary Financing Accounts		Non-Budgetary Financing Accounts	
	2015 Combined	2014 Combined (Unaudited) (Unaudited)	2015 Combined	2014 Combined
Budgetary Resources				
Unobligated balance, brought forward, October 1	\$ 35,422.0	\$ 21,661.7	\$ 0.0	\$ 0.0
Recoveries of prior year unpaid obligations	9,545.7	4,269.1	0.0	0.0
Other changes in unobligated balance	(10,162.7)	(4,864.0)	0.0	0.0
Unobligated balance from prior year budget authority, net	34,805.0	21,066.8	0.0	0.0
Appropriations (discretionary and mandatory)	317,037.0	326,846.0	0.0	0.0
Spending authority from offsetting collections (discretionary and mandatory)	11,602.9	7,699.4	0.0	0.0
Total Budgetary Resources	\$363,444.9	\$ 355,612.2	\$ 0.0	\$ 0.0
Status of Budgetary Resources				
Obligations incurred	\$ 322,973.4	\$ 320,190.2	\$ 0.0	\$ 0.0
Unobligated balance, end of year:				
Apportioned	11,048.2	17,796.5	0.0	0.0
Unapportioned	29,423.3	17,625.5	0.0	0.0
Total unobligated balance, end of year	\$ 40,471.5	\$ 35,422.0	\$ 0.0	\$ 0.0
Total Budgetary Resources	\$ 363,444.9	\$ 355,612.2	\$ 0.0	\$ 0.0
Change in Obligated Balance				
Unpaid obligations:				
Unpaid obligations, brought forward, October 1	\$ 63,981.4	\$ 65,327.7	\$ 0.0	\$ 0.0
Obligations incurred	322,973.3	320,190.2	0.0	0.0
Outlays (Gross)	(304,746.5)	(317,267.4)	0.0	0.0
Recoveries of prior year unpaid obligations	(9,545.7)	(4,269.1)	0.0	0.0
Unpaid obligations, end of year	72,662.5	63,981.4	0.0	0.0
Uncollected payments:				
Uncollected payments, Federal sources, brought forward, October 1	(4,708.5)	(5,596.1)	0.0	0.0
Change in uncollected payments, Federal sources	(5,525.9)	887.6	0.0	0.0
Uncollected payments, Federal sources, end of year	(10,234.4)	(4,708.5)	0.0	0.0
Memorandum Entries:				
Obligated balance, start of year	\$ 59,272.8	\$ 59,731.5	\$ 0.0	\$ 0.0
Obligated balance, end of year	\$ 62,428.1	\$ 59,272.8	\$ 0.0	\$ 0.0

Combined Statement of Budgetary Resources Office of the Inspector General For the Years Ended September 30, 2015 and 2014 Page 2 of 2 <i>Dollars in Thousands</i>	Budgetary Financing Accounts		Non-Budgetary Financing Accounts	
	2015 Combined	2014 Combined (Unaudited) (Unaudited)	2015 Combined	2014 Combined
Budgetary Authority and Outlays, Net:				
Budget authority, gross (discretionary and mandatory)	\$ 328,639.9	\$ 334,545.4	\$ 0.0	\$ 0.0
Actual offsetting collections (discretionary and mandatory)	(6,077.0)	(8,587.0)	0.0	0.0
Change in uncollected customer payments from Federal sources (discretionary and mandatory)	(5,525.9)	887.6	0.0	0.0
Budget Authority, net (discretionary and mandatory)	\$ 317,037.0	\$ 326,846.0	\$ 0.0	\$ 0.0
Outlays, gross (discretionary and mandatory)	\$ 304,746.5	\$ 317,267.4	\$ 0.0	\$ 0.0
Actual offsetting collections (discretionary and mandatory)	(6,077.0)	(8,587.0)	0.0	0.0
Outlays, net (discretionary and mandatory)	298,669.5	308,680.4	0.0	0.0
Distributed offsetting receipts	0.0	0.0	0.0	0.0
Agency Outlays, net (discretionary and mandatory)	\$ 298,669.5	\$ 308,680.4	\$ 0.0	\$ 0.0

LIST OF NOTES TO THE FINANCIAL STATEMENTS

Note 1	Significant Accounting Policies	43
--------	---------------------------------------	----

Note Disclosures Related to the Balance Sheets

Note 2	Non-Entity Assets	47
Note 3	Fund Balance with Treasury	47
Note 4	Investments and Related Interest	N/A
Note 5	Accounts Receivable	49
Note 6	Other Assets	49
Note 7	Cash and Other Monetary Assets	50
Note 8	Direct Loans and Loan Guarantees	N/A
Note 9	Inventory and Related Property	N/A
Note 10	General Property, Plant and Equipment, Net	N/A
Note 11	Liabilities Not Covered by Budgetary Resources	50
Note 12	Accounts Payable	51
Note 13	Debt	N/A
Note 14	Environmental and Disposal Liabilities	N/A
Note 15	Other Liabilities	52
Note 16	Commitments and Contingencies	N/A
Note 17	Military Retirement and Other Federal Employment Benefits	53

Note 18	General Disclosures Related to the Statement of Net Cost	55
----------------	---	-----------

Note 19	Disclosures Related to the Statement of Changes in Net Position	56
----------------	--	-----------

Note 20	Disclosures Related to the Statement of Budgetary Resources	56
----------------	--	-----------

Note Disclosures Not Pertaining to a Specific Statement

Note 21	Reconciliation of Net Cost of Operations to Budget	58
Note 22	Incidental Custodial Collections	59
Note 23	Funds from Dedicated Collections	N/A
Note 24	Fiduciary Activities	N/A
Note 25	Leases	59
Note 26	Restatements	N/A

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

1.A. Basis of Presentation

These financial statements report the financial position and results of operations of the Department of Defense Office of Inspector General (DoD OIG), as required by the [Chief Financial Officers Act of 1990](#) expanded by the [Government Management Reform Act of 1994](#), and other appropriate legislation. The financial statements have been prepared from the books and records of the DoD OIG in accordance with, to the extent possible, U.S. generally accepted accounting principles (USGAAP) promulgated by the Federal Accounting Standards Advisory Board; the Office of Management and Budget ([OMB Circular No. A-136, "Financial Reporting Requirements"](#)); and the DoD [Financial Management Regulation \(FMR\)](#). The accompanying financial statements account for all resources for which the DoD OIG is responsible unless otherwise noted.

The DoD OIG is unable to fully implement all elements of USGAAP and [OMB Circular No. A-136](#), due to limitations of financial and nonfinancial management processes and systems that support the financial statements. The DoD OIG derives reported values and information for major asset and liability categories largely from nonfinancial systems, such as inventory and logistics systems. These systems were designed to support reporting requirements for maintaining accountability over assets and reporting the status of federal appropriations, rather than preparing financial statements in accordance with USGAAP. The DoD OIG continues to implement process and system improvements addressing these limitations.

1.B. Mission of the Reporting Entity

Pursuant to the Inspector General Act of 1978, as amended, "the Inspector General of the Department of Defense shall...be the principal adviser to the Secretary of Defense for matters relating to the prevention of fraud, waste, and abuse in the programs and operations of the Department." The law also requires the Inspector General "to keep the [Secretary of Defense] and Congress fully and currently informed...concerning fraud and other serious problems, abuses, and deficiencies." The Office of Inspector General audits, investigates, inspects, and evaluates the programs and operations of the DoD and makes timely and actionable recommendations that promote economy, efficiency, and effectiveness in DoD programs and operations.

The DoD OIG assesses the most serious management and performance challenges DoD faces, basing its assessment on the findings and recommendations of audits, inspections, and investigations conducted during the year. The DoD OIG is focusing its resources and oversight efforts on critical areas for the Department to improve programs and operations. Independent oversight of the Department is essential to ensuring the public's confidence and to protecting our Nation's warfighters.

1.C. Appropriations and Funds

The DoD OIG receives appropriations and funds as general funds and uses them to execute its missions and subsequently report on resource usage. General Funds are used for financial transactions funded by congressional appropriations, including operation and maintenance, research and development, and procurement.

1.D. Basis of Accounting

The DoD OIG is unable to meet all full accrual accounting requirements because many of the DoD OIG's financial and nonfinancial systems and processes were designed prior to the legislative mandate to produce financial statements in accordance with USGAAP. These systems were not designed to collect and record financial information on the full accrual accounting basis but were designed to record information on a budgetary basis.

The DoD OIG's financial statements and supporting trial balances are compiled from the underlying financial data and trial balances of the DoD OIG's sub-entities. This data is largely derived from budgetary transactions (obligations, disbursements, and collections), from nonfinancial feeder systems, and from accruals made for major items such as payroll expenses and accounts payable. Some of the sub-entity level trial balances may reflect known abnormal balances resulting largely from business and system processes. At the consolidated level these abnormal balances may not be evident. Disclosures of abnormal balances are made in the applicable footnotes, but only to the extent that the abnormal balances are evident at the consolidated level.

The DoD OIG is determining the actions required to bring financial and nonfinancial feeder systems and processes into compliance with USGAAP, including implementing a new accounting system in FY 2017 to record transactions based on the U.S. Standard General Ledger (USSGL). Until all of the DoD OIG's financial and nonfinancial feeder systems and processes are able to collect and report financial information as required by USGAAP, there will be instances when the DoD OIG's financial data is derived from budgetary transactions, data from nonfinancial feeder systems, and accruals.

1.E. Revenues and Other Financing Sources

The DoD OIG receives congressional appropriations as financing sources for general funds. These funds expire either annually or on a multi-year basis. When authorized by legislation, these appropriations are supplemented by reimbursable authority. The DoD OIG recognizes revenue as a result of costs incurred for goods and services provided to other federal agencies and the public. Full-cost pricing is the DoD OIG's standard policy for services provided as required by [OMB Circular No. A-25, "User Charges."](#) The DoD OIG recognizes revenue when earned within the constraints of its current system capabilities.

1.F. Recognition of Expenses

For financial reporting purposes, the DoD OIG's policy requires the recognition of operating expenses in the period incurred. Current financial and nonfinancial feeder systems were not designed to collect and record financial information on the full accrual accounting basis. Estimates are made for major items such as payroll expenses and accounts payable.

1.G. Accounting for Intragovernmental Activities

Accounting standards require an entity to eliminate intra-entity activity and balances from consolidated financial statements to prevent overstating various account balances. However, the DoD OIG cannot accurately identify intragovernmental transactions by customer because the DoD OIG's systems do not track buyer and seller data at the transaction level. Generally, seller entities within the DoD OIG provide summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal accounting offices. In most cases, the buyer-side records are adjusted to agree with the DoD OIG's seller-side balances and then eliminated. The DoD OIG is implementing a new financial management

system and a standard financial information structure incorporating the necessary elements to enable the DoD OIG to correctly report, reconcile, and eliminate intragovernmental balances.

The [Treasury Financial Manual Part 2 – Chapter 4700, Agency Reporting Requirements for the Financial Report of the United States Government](#), provides guidance for reporting and reconciling intragovernmental balances. While the DoD OIG is unable to fully reconcile intragovernmental transactions with all federal agencies, the DoD OIG is able to reconcile balances pertaining to Federal Employees’ Compensation Act transactions with the Department of Labor, and benefit program transactions with the Office of Personnel Management.

Imputed financing represents the costs paid on behalf of the DoD OIG by another Federal entity. The DoD OIG recognizes imputed costs for (1) employee pension, post-retirement health, and life insurance benefits and (2) post-employment benefits for terminated and inactive employees to include unemployment and workers compensation under the Federal Employees’ Compensation Act.

The DoD OIG’s proportionate share of public debt and related expenses of the Federal Government is not included. The Federal Government does not apportion debt and related costs to federal agencies. The DoD OIG’s financial statements do not report public debt, interest, or source of public financing, whether from issuance of debt or tax revenues.

1.H. Funds with the U.S. Treasury

The DoD OIG’s monetary resources are maintained in U.S. Treasury accounts. The Defense Finance and Accounting Service (DFAS) processes the majority of the DoD OIG’s cash collections, disbursements, and adjustments. DFAS prepares monthly reports to the U.S. Treasury on checks issued, electronic fund transfers, interagency transfers, and deposits. In addition, DFAS submits reports to the U.S. Treasury by appropriation on interagency transfers, collections received, and disbursements issued. The U.S. Treasury records these transactions to the applicable Fund Balance with Treasury (FBWT) account. On a monthly basis, the DoD OIG’s FBWT is reviewed and adjusted, as required, to agree with the U.S. Treasury accounts.

1.I. Cash and Other Monetary Assets

Cash is the total of cash resources under the control of the DoD OIG including coin, paper currency, negotiable instruments, and amounts held for deposit in banks and other financial institutions. The majority of cash is classified as “nonentity” and is restricted. Amounts reported consist primarily of cash held by disbursing officers to carry out their paying and collecting missions.

1.J. Accounts Receivable

Accounts receivable from other federal entities or the public include accounts receivable, claims receivable, and refunds receivable. Allowances for uncollectible accounts due from the public are based upon an analysis of collection experience. The DoD OIG does not recognize an allowance for estimated uncollectible amounts from other federal agencies, as receivables from other federal agencies are considered to be inherently collectible. Claims for accounts receivable from other federal agencies are resolved between the agencies in accordance with the Intragovernmental Business Rules published in the Treasury Financial

Manual.

1.K. Advances and Prepayments

When advances are permitted by law, legislative action, or presidential authorization, the OIG's policy is to record advances or prepayments in accordance with USGAAP. As such, payments made in advance of the receipt of goods and services should be reported as an asset on the Balance Sheet. The DoD OIG's policy is to expense and/or properly classify assets when the related goods and services are received. The DoD OIG has not fully implemented this policy primarily due to system limitations.

1.L. Leases

Lease payments to rent equipment and operating facilities are classified as either capital or operating leases. The DOD OIG has operating leases and, as the lessee, receives the use and possession of leased property from a lessor in exchange for a payment of funds. An operating lease does not substantially transfer all the benefits and risks of ownership. Payments for operating leases are expensed over the lease term as they become payable. Office space and leases entered into by the DoD OIG are the largest component of operating leases and are based on costs gathered from existing leases, General Services Administration bills, and interservice support agreements. Future year projections of lease costs use the Consumer Price Index.

1.M. Other Assets

Other assets include military and travel advances not reported elsewhere on the DoD OIG's Balance Sheet.

1.N. Contingencies and Other Liabilities

The [*SFFAS No. 5, "Accounting for Liabilities of the Federal Government,"*](#) as amended by [*SFFAS No. 12, "Recognition of Contingent Liabilities Arising from Litigation,"*](#) defines a contingency as an existing condition, situation, or set of circumstances involving an uncertainty as to possible gain or loss. The uncertainty will be resolved when one or more future events occur or fail to occur. The DoD OIG recognizes contingent liabilities when past events or exchange transactions occur, a future loss is probable, and the loss amount can be reasonably estimated.

Financial statement reporting is limited to disclosure when conditions for liability recognition do not exist, but there is at least a reasonable possibility of incurring a loss or additional losses. The DoD OIG's risk of loss and resultant contingent liabilities arise from pending or threatened litigation and contract disputes.

1.O. Accrued Leave

The DoD OIG reports liabilities for military leave and accrued compensatory and annual leave for civilians. Sick leave for civilians is expensed when taken. The liabilities are based on current pay rates.

1.P. Net Position

Net position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations represent the amounts of budget authority that are unobligated and have not been rescinded or withdrawn. Unexpended appropriations also represent amounts obligated for which legal liabilities for payments have not been incurred. Cumulative results of operations represent the net difference between expenses and losses, and financing sources (including appropriations, revenue, and gains), since inception.

NOTE 2. NONENTITY ASSETS

Nonentity Assets		<i>Dollars in Thousands</i>	
<i>As of September 30</i>		2015	2014
			(Unaudited)
Non-Federal Assets			
Cash and Other Monetary Assets	\$	114.0	\$ 64.0
Total Non-Federal Assets	\$	114.0	\$ 64.0
Total Nonentity Assets	\$	114.0	\$ 64.0
Total Entity Assets	\$	103,608.8	\$ 95,159.1
Total Assets	\$	103,722.8	\$ 95,223.1

Nonentity assets are not available for use in the DoD OIG's normal operations. The DoD OIG has stewardship accountability and reporting responsibility for nonentity assets.

The DoD OIG is reporting \$114 thousand for FY 2015 and \$64 thousand for FY 2014 of seized cash as a result of its DCIS operations. This amount is currently being held pending court processing. Depending on the outcome of the trials, this money can either be returned to the original owner or deposited with the U.S. Treasury.

NOTE 3. FUND BALANCE WITH TREASURY

Fund Balance with Treasury		<i>Dollars in Thousands</i>	
<i>As of September 30</i>		2015	2014
			(Unaudited)
Fund Balance			
Appropriated Funds	\$	102,899.7	\$ 94,694.9
Total Fund Balance	\$	102,899.7	\$ 94,694.9
Fund Balance Per Treasury Versus Agency			
Fund Balance per Treasury	\$	0.0	\$ 0.0
Less: Fund Balance per Agency		102,899.7	94,694.9
Reconciling Amount	\$	(102,899.7)	\$ (94,694.9)

The U.S. Treasury maintains and reports fund balances at the Treasury Index appropriation level. Defense Agencies, including the DoD OIG, are aggregated at the Treasury Index 97 appropriation level. This Treasury Index does not separate individual balances for each Defense Agency. As a result, the U.S. Treasury does not separately report an amount for the DoD OIG and therefore, the entire DoD OIG's Fund Balance with Treasury (FBWT) is reflected as a reconciling amount.

Status of Fund Balance with Treasury		<i>Dollars in Thousands</i>	
<i>As of September 30</i>		2015	2014 (Unaudited)
Unobligated Balances			
Available		\$ 11,048.2	\$ 17,796.5
Unavailable		29,423.3	17,625.5
Total Unobligated Balance		40,471.5	35,422.0
Obligated Balance not yet Disbursed		72,662.6	63,981.4
Non-FBWT Budgetary Accounts		(10,234.4)	(4,708.5)
Total Fund Balance		\$ 102,899.7	\$ 94,694.9

The Status of FBWT reflects the various types of budgetary resources that comprise FBWT and is a reconciliation between budgetary and proprietary accounts. It primarily consists of unobligated and obligated balances. These balances reflect the budgetary authority remaining for disbursements against current or future obligations.

Unobligated Balances may be either available or unavailable and represents the cumulative amount of budgetary authority set aside to cover future obligations. The unavailable balance consists primarily of funds invested in U.S. Treasury securities and are temporarily precluded from obligation by law. Certain unobligated balances are restricted for future use and are not apportioned for current use.

Obligated Balances not yet Disbursed represents funds obligated for goods and services but not paid. Non-Budgetary FBWT includes accounts without budgetary authority, such as deposit funds, unavailable receipt accounts, clearing accounts, and nonentity FBWT. Non-FBWT Budgetary Accounts reduce the Status of FBWT and consist of unfilled customer orders without advance and receivables.

NOTE 5. ACCOUNTS RECEIVABLE

Accountable	2015		
	Gross Amount Due	Allowance for Estimated Uncollectibles	Accounts Receivable, Net
<i>As of September 30</i>			
Intragovernmental Receivables	\$ 445.4	N/A	\$ 445.4
Non-Federal Receivables (From the Public)	11.8	0.0	11.8
Total Accounts Receivable	\$ 457.2	\$ 0.0	\$ 457.2

Accounts Receivable	2014 (Unaudited)		
	Gross Amount Due	Allowance for Estimated Uncollectibles	Accounts Receivable, Net
<i>As of September 30</i>			
Intragovernmental Receivables	\$ 196.5	N/A	\$ 196.5
Non-Federal Receivables (From the Public)	23.7	0.0	23.7
Total Accounts Receivable	\$ 220.2	\$ 0.0	\$ 220.2

Accounts receivable represent the DoD OIG's claim for payment from other entities. The DoD OIG only recognizes an allowance for uncollectible amounts from the public. Claims with other Federal agencies are resolved in accordance with the Intragovernmental Business Rules.

NOTE 6. OTHER ASSETS

Other Assets	2015		2014 (Unaudited)	
	<i>As of September 30</i>		<i>As of September 30</i>	
Intragovernmental Other Assets				
Advances and Prepayments	\$	1.9	\$	(5.9)
Total Intragovernmental Other Assets	\$	1.9	\$	(5.9)
Non-Federal Other Assets				
Advances and Prepayments		250.0		250.0
Total Non-Federal Other Assets	\$	250.0	\$	250.0
Total Other Assets	\$	251.9	\$	244.1

Non-Federal Other Assets consists of travel advances and advances to contractors and suppliers. The total ending balance for Other Assets for FY 2015 is \$251.9 thousand and \$244.1 thousand for FY 2014.

NOTE 7. CASH AND OTHER MONETARY ASSETS

Cash and Other Monetary Assets		<i>Dollars in Thousands</i>	
<i>As of September 30</i>		2015	2014 (Unaudited)
Cash	\$	114.0	\$ 64.0
Total Cash, Foreign Currency, and Other Monetary Assets	\$	114.0	\$ 64.0

The DoD OIG is reporting \$114 thousand for FY15 and \$64 thousand for FY14 of seized cash as a result of its DCIS operations. This amount is currently being held pending court processing. Depending on the outcome of the trials, this money can either be returned to the original owner or deposited with the U.S. Treasury.

NOTE 11. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Liabilities Not Covered by Budgetary Resources		<i>Dollars in Thousands</i>	
<i>As of September 30</i>		2015	2014 (Unaudited)
Intragovernmental Liabilities			
Other		2,408.2	2,654.9
Total Intragovernmental Liabilities	\$	2,408.2	\$ 2,654.9
Non-Federal Liabilities			
Accounts Payable	\$	5.6	\$ 0.0
Military Retirement and Other Federal Employment Benefits		10,718.7	11,410.2
Other Liabilities		16,214.1	16,157.2
Total Non-Federal Liabilities	\$	26,938.4	\$ 27,567.4
Total Liabilities Not Covered by Budgetary Resources	\$	29,346.6	\$ 30,222.3
Total Liabilities Covered by Budgetary Resources	\$	20,428.9	\$ 17,507.7
Total Liabilities	\$	49,775.5	\$ 47,724.0

Liabilities Not Covered by Budgetary Resources includes liabilities requiring congressional action before budgetary resources can be provided. Non-Federal Accounts Payable primarily represents liabilities in canceled appropriations that if paid, will be disbursed using current year funds. Intragovernmental Other Liabilities consists primarily of unfunded liabilities for Federal Employees Compensation Act, Unemployment Insurance, and Judgment Fund.

Non-Federal Other Liabilities consists primarily of unfunded annual leave. Military Retirement and Other Federal Employment Benefits consists of various employee actuarial liabilities not due and payable during the current fiscal year. These liabilities primarily consist of \$10.7M of unfunded FECA liability. Refer to Note 17, Military Retirement and Other Federal Employment Benefits, for additional details.

NOTE 12. ACCOUNTS PAYABLE

Accounts Payable		<i>Dollars in Thousands</i>		
		2015		
<i>As of September 30</i>	Accounts Payable	Interest, Penalties, and Administrative Fees	Total	
Intragovernmental Payables	\$ 3,251.8	N/A	\$	3,251.8
Non-Federal Payables (To the Public)	409.6	0.0		409.6
Total Accounts Payable	\$ 3,661.4	\$ 0.0	\$	3,661.4

Accounts Payable		<i>Dollars in Thousands</i>		
		2014 (Unaudited)		
<i>As of September 30</i>	Accounts Payable	Interest, Penalties, and Administrative Fees	Total	
Intragovernmental Payables	\$ 1,585.6	N/A	\$	1,585.6
Non-Federal Payables (To the Public)	861.2	0.0		861.2
Total Accounts Payable	\$ 2,446.8	\$ 0.0	\$	2,446.8

Accounts Payable includes amounts owed to Federal and non-Federal entities for goods and services received by the DoD OIG. The DoD OIG's systems do not track intragovernmental accounts payable transactions by customer. Buyer-side accounts payable are adjusted to agree with interagency seller-side accounts receivable by accruing additional accounts payable and expenses.

NOTE 15. OTHER LIABILITIES

Other Liabilities		<i>Dollars in Thousands</i>		
<i>As of September 30</i>		2015		
	Current Liability	Noncurrent Liability	Total	
Intragovernmental				
Advances from Others	\$ 3.4	\$ 0.0	\$ 3.4	
FECA Reimbursement to the Department of Labor	1,174.9	1,233.3	2,408.2	
Employer Contribution and Payroll Taxes Payable	1,173.2	0.0	1,173.2	
Total Intragovernmental Other	\$ 2,351.5	\$ 1,233.3	\$ 3,584.8	
Non-Federal				
Accrued Funded Payroll and Benefits	\$ 11,515.6	\$ 0.0	\$ 11,515.6	
Accrued Unfunded Annual Leave	16,100.1	0.0	16,100.1	
Employer Contribution and Payroll Taxes Payable	4,080.9	0.0	4,080.9	
Other Liabilities	114.0	0.0	114.0	
Total Non-Federal Other Liabilities	\$ 31,810.6	\$ 0.0	\$ 31,810.6	
Total Other Liabilities	\$ 34,162.1	\$ 1,233.3	\$ 35,395.4	

Other Liabilities		<i>Dollars in Thousands</i>		
<i>As of September 30</i>		2014 (Unaudited)		
	Current Liability	Noncurrent Liability	Total	
Intragovernmental				
Advances from Others	\$ 1.7	\$ 0.0	\$ 1.7	
FECA Reimbursement to the Department of Labor	1,222.9	1,432.0	2,654.9	
Employer Contribution and Payroll Taxes Payable	974.1	0.0	974.1	
Total Intragovernmental Other	\$ 2,198.7	\$ 1,432.0	\$ 3,630.7	
Non-Federal				
Accrued Funded Payroll and Benefits	\$ 11,207.4	\$ 0.0	\$ 11,207.4	
Accrued Unfunded Annual Leave	16,093.2	0.0	16,093.2	
Employer Contribution and Payroll Taxes Payable	2,871.6	0.0	2,871.6	
Contingent Liabilities	0.0	0.0	0.0	
Other Liabilities	64.0	0.0	64.0	
Total Non-Federal Other Liabilities	\$ 30,236.2	\$ 0.0	\$ 30,236.2	
Total Other Liabilities	\$ 32,434.9	\$ 1,432.0	\$ 33,866.9	

Advances from Others represent liabilities for collections received to cover future expenses or acquisition of assets. Intragovernmental O t h e r Liabilities primarily consists of unemployment compensation liabilities. Non-Federal Other Liabilities primarily consist of accruals for services.

NOTE 17. MILITARY RETIREMENT AND OTHER FEDERAL EMPLOYMENT BENEFITS

Military Retirement and Other Federal Employment Benefits				<i>Dollars in Thousands</i>
<i>As of September 30</i>	Liabilities	2015 (Less: Assets Available to Pay Benefits)	Unfunded Liabilities	
Other Benefits				
FECA	\$ 10,718.7	\$ 0.0	\$ 10,718.7	
Total Other Benefits	\$ 10,718.7	\$ 0.0	\$ 10,718.7	
Total Military Retirement and Other Federal Employment Benefits	\$ 10,718.7	\$ 0.0	\$ 10,718.7	

Military Retirement and Other Federal Employment Benefits				<i>Dollars in Thousands</i>
<i>As of September 30</i>	Liabilities	2014 (Unaudited) (Less: Assets Available to Pay Benefits)	Unfunded Liabilities	
Other Benefits				
FECA	\$ 11,410.2	\$ 0.0	\$ 11,410.2	
Total Other Benefits	\$ 11,410.2	\$ 0.0	\$ 11,410.2	
Total Military Retirement and Other Federal Employment Benefits	\$ 11,410.2	\$ 0.0	\$ 11,410.2	

Federal Employees Compensation Act (FECA)

The amount reported for FECA is comprised of the following: unfunded FECA liability, actuarial FECA liability, and other liabilities without budgetary obligations.

In FY 2015, The Department of Labor (DOL) refined the approach for selecting the cost of living adjustment (OLA) factors, consumer price index medical (CPIM) factors, and discount rate by averaging the COLA rates, CPIM rates, and interest rates for the current and prior four years. Using averaging produces estimates that reflect historical trends over five years instead of conditions that exist in one year. In FY 2014, DOL selected the COLA and CPIM factors based on one year. DOL selected the interest rate assumptions using projected annual payments that were discounted to present value based on interest rate assumptions on the U.S. Department of the Treasury's Yield Curve for Treasury Nominal Coupon Issues (the TNC Yield Curve) to reflect the average duration of income payments and medical payments. For FY 2015, discount rates were based on averaging the TNC Yield Curves for the current and prior four years; for FY 2014, discount rates were based on the TNC Yield Curve for one year. An interest rate for wage benefits of 3.1 percent was assumed for year one and 3.1 percent for year two and thereafter. An interest rate for medical benefits of 2.5

percent was assumed for year one and 2.5 percent for year two and thereafter.

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (COLAs and CPIMs) were applied to the calculation of projected future benefits. The actual rates for these factors for the charge back year (CBY) 2015 were also used to adjust the methodology's historical payments to current year constant dollars. The compensation COLAs and CPIMs used in the projections for various CBY were as follows:

Federal Employees Compensation Act (FECA)		
CBY	COLA	CPIM
2016	1.64%	2.94%
2017	1.47%	2.98%
2018	1.33%	3.09%
2019	1.43%	3.39%
2020+	1.65%	3.69%

[and thereafter]

The model's resulting projections were analyzed by the Department of Labor to ensure that the estimates were reliable. The analysis was based on four tests: (1) a sensitivity analysis of the model to economic assumptions, (2) a comparison of the percentage change in the liability amount to the percentage change in the actual incremental payments, (3) a comparison of the incremental paid losses per case (a measure of case-severity) in CBY 2015 to the average pattern observed during the most current three charge back years, and (4) a comparison of the estimated liability per case in the 2015 projection to the average pattern for the projections of the most recent three projections.

The estimated actuarial liability is updated only at the end of each fiscal year.

NOTE 18. GENERAL DISCLOSURES RELATED TO THE STATEMENT OF NET COST

Costs and Exchange Revenue		<i>Dollars in Thousands</i>	
<i>As of September 30</i>		2015	2014 (Unaudited)
Operations, Readiness & Support			
Gross Cost			
Intragovernmental Cost		\$ 123,551.3	\$ 128,355.7
Non-Federal Cost		\$ 200,276.3	\$ 201,951.5
Total Cost		\$ 323,827.6	\$ 330,307.2
Earned Revenue			
Intragovernmental Revenue		\$ (6,324.2)	\$ (6,676.4)
Non-Federal Revenue		\$ (3,779.6)	\$ 0.0
Total Revenue		\$ (10,103.8)	\$ (6,676.4)
Total Net Cost		\$ 313,723.8	\$ 323,630.8
Procurement			
Gross Cost			
Intragovernmental Cost		\$ 0.0	\$ 68.0
Non-Federal Cost		\$ 0.4	\$ 611.9
Total Cost		\$ 0.4	\$ 680.0
Total Net Cost		\$ 0.4	\$ 680.0
Research, Development, Test & Evaluation			
Gross Cost			
Intragovernmental Cost		\$ 187.5	\$ 483.8
Non-Federal Cost		\$ 432.9	\$ 978.1
Total Cost		\$ 620.4	\$ 1,461.9
Total Net Cost		\$ 620.4	\$ 1,461.9
Consolidated			
Gross Cost			
Intragovernmental Cost		\$ 123,738.8	\$ 128,907.5
Non-Federal Cost		\$ 200,709.6	\$ 203,541.5
Total Cost		\$ 324,448.4	\$ 332,449.1
Earned Revenue			
Intragovernmental Revenue		\$ (6,324.2)	\$ (6,676.4)
Non-Federal Revenue		\$ (3,779.6)	\$ 0.0
Total Revenue		\$ (10,103.8)	\$ (6,676.4)
Total Net Cost		\$ 314,344.6	\$ 325,772.7

The Statement of New Cost (SNC) represents the net cost of programs and organizations of the DoD OIG that are supported by appropriations or other means. The intent of the SNC is to provide gross and net cost information related to the amount of output or outcome for a given program or organization administered by a responsible reporting entity. The DoD OIG's current processes and systems capture costs based on appropriation groups as presented in the schedule above. The lower level costs for major programs are not presented as required by the [Government Performance and Results Act](#). The DoD OIG is in the process of reviewing available data and developing a cost reporting methodology required by [SFFAS No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government,"](#) amended by [SFFAS No. 30, "Inter-Entity Cost Implementation."](#)

Intragovernmental costs and revenue represent transactions between two reporting entities within the Federal Government. Public costs and revenues are exchange transactions between the reporting entity and a non-Federal entity.

The DoD OIG's systems do not track intragovernmental transactions by customer. Buyer side expenses are adjusted to agree with internal seller side revenues. Expenses are generally adjusted by accruing additional accounts payable and expenses. Intradepartmental revenues and expenses are then eliminated.

The SNC presents information based on budgetary obligation, disbursement, and collection transactions, as well as data from nonfinancial feeder systems. General Fund data is primarily derived from budgetary transactions (obligations, disbursements, and collections), data from nonfinancial feeder systems, and accruals (payroll expenses and accounts payable).

NOTE 19. DISCLOSURES RELATED TO THE STATEMENT OF CHANGES IN NET POSITION

Reconciliation Differences

In accordance with OMB and U.S. Treasury guidance, Appropriations reported on the Statement of Changes in Net Position exceeds Appropriations Received on the Statement of Budgetary Resources by \$5.4 million.

Year Ended September 30, 2015		<i>Dollars in Millions</i>
Reconciliation of Appropriations on the Statement of Budgetary Resources to Appropriations Received on the Statement of Changes in Net Position		
	Total	
Appropriations, Statement of Budgetary Resources	\$	317.0
Less: Appropriations Received, Statement of Changes in Net Position		322.5
Total Reconciling Amount	\$	(5.4)
Items Reported in Net Cost of Operations, Statement of Changes in Net Position		
Items Reported as Reductions to Appropriations, Statement of Budgetary Resources		
Permanent and Temporary Reductions	\$	(5.4)
Total Reconciling Items	\$	(5.4)

NOTE 20. DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

Disclosures Related to the Statement of Budgetary Resources		<i>Dollars in Thousands</i>	
<i>As of September 30</i>		2015	2014 (Unaudited)
Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$	36,018.4	\$ 46,729.8

Reconciliation Differences

In accordance with OMB and U.S. Treasury guidance, appropriations reported on the Statement of Budgetary Resources is less than appropriations received on the Statement of Changes in Net Position by \$5.4 million. See Note 19, Disclosures Related to the Statement of Changes in Net Position, for additional details.

Apportionment Categories for Obligations Incurred

Apportionment categories are determined in accordance with the guidance provided in OMB Circular No. A-11, "Preparation, Submission and Execution of the Budget." Category A relates to appropriations for a specific period of time and category B relates to appropriations for a specific project. The DoD OIG reported the following amounts of obligations incurred:

Year Ended September 30, 2015	<i>Dollars in Millions</i>			
	Apportionment Category A	Apportionment Category B	Exempt From Apportionment	Total
Obligations Incurred – Direct	315.1	0.0	0.0	315.1
Obligations Incurred – Reimbursable	7.9	0.0	0.0	7.9
Total Obligations Incurred:	\$ 323.0	\$ 0.0	\$ 0.0	\$ 323.0

Other Disclosures

The SBR includes intra-entity transactions because the statements are presented as combined.

NOTE 21. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

Reconciliation of Net Cost of Operations to Budget	<i>Dollars in Thousands</i>	
<i>As of September 30</i>	2015	2014 (Unaudited)
Resources Used to Finance Activities		
Budgetary Resources Obligated:		
Obligations incurred	\$ 322,973.4	\$ 320,190.2
Less: Spending authority from offsetting collections and recoveries (-)	(21,148.6)	(11,968.5)
Obligations net of offsetting collections and recoveries	\$ 301,824.8	\$ 308,221.7
Net obligations	\$ 301,824.8	\$ 308,221.7
Other Resources:		
Imputed financing from costs absorbed by others	10,145.9	13,465.6
Other (+/-)	3,772.4	(6.2)
Net other resources used to finance activities	\$ 13,918.3	\$ 13,459.4
Total resources used to finance activities	\$ 315,743.1	\$ 321,681.1
Resources Used to Finance Items not Part of the Net Cost of Operations		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided:		
Undelivered Orders (-)	\$ 10,711.3	\$ 2,170.4
Unfilled Customer Orders	1,498.8	1,023.0
Resources that fund expenses recognized in prior Periods (-)	(938.1)	0.0
Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations:		
Other (+/-)	(3,772.5)	6.2
Total resources used to finance items not part of the Net Cost of Operations	\$ 7,499.5	\$ 3,199.6
Total resources used to finance the Net Cost of Operations	\$ 323,242.6	\$ 324,880.7
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period		
Components Requiring or Generating Resources in Future Period:		
Increase in annual leave liability	\$ 6.9	\$ 192.7
Other (+/-)	5.6	699.1
Total components of Net Cost of Operations that will Require or Generate Resources in future periods	\$ 12.5	\$ 891.8
Components not Requiring or Generating Resources:		
Other (+/-)	\$ (8,910.6)	\$ 0.0
Total Components of Net Cost of Operations that will not Require or Generate Resources	\$ (8,910.6)	\$ 0.0
Total components of Net Cost of Operations that will not Require or Generate Resources in the current period	\$ (8,898.1)	\$ 891.8
Net Cost of Operations	\$ 314,344.5	\$ 325,772.5

NOTE 22. DISCLOSURES RELATED TO INCIDENTAL CUSTODIAL COLLECTIONS

The Defense Criminal Investigative Service (DCIS) is the criminal investigative arm of the DoD IG. DCIS' primary mission is to investigate waste, fraud, abuse and corruption in the Department. The DoD OIG reports seized assets in accordance with [SFFAS No. 3, "Accounting for Inventory and Related Property"](#) and [OMB Circular No. A-136, "Financial Reporting Requirements"](#).

DCIS total seized cash is \$114 thousand as of September 30, 2015. The remaining seized property with total value of \$185 thousand consists primarily of hardware/software, military equipment, miscellaneous, and non-valued items mainly from investigations of major procurement fraud, cyber-crimes, healthcare fraud, and public corruption.

Seized assets also include items seized from anti-terrorism operations and technology protection investigations (illegal transfer, theft, or diversion of DoD technologies and U.S. Munitions List items to proscribed nations and persons). This property is considered prohibited, defective or illegal and is held pending an outcome of court proceedings.

The values assigned to the seized property are determined by each DCIS agent and are based on current market values for comparable property. The DoD IG established a \$2,500 threshold for reporting purpose. All DCIS field offices reported assets in their possession with an aggregate amount of \$2,500 or more.

As of Sept 30, 2011, the DoD OIG decided not to place any value on Personal Property Government assets. This is because these assets represent no liability to the OIG.

NOTE 25. Leases

Other Disclosures		<i>Dollars in Thousands</i>		
<i>As of September 30</i>	Land and Buildings	2015 – Asset Category		Total
		Equipment	Other	
Entity as Lessee – Operating Leases				
Future Payments Due				
Fiscal Year 2016	\$ 21,705.3	\$ 0.0	\$ 0.0	\$ 21,705.3
Fiscal Year 2017	21,004.9	0.0	0.0	21,004.9
Fiscal Year 2018	19,311.3	0.0	0.0	19,311.3
Fiscal Year 2019	18,574.4	0.0	0.0	18,574.4
Fiscal Year 2020	18,473.2	0.0	0.0	18,473.2
After 5 Years	27,795.3	0.0	0.0	27,795.3
Total Future Lease Payments Due	\$ 126,864.4	\$ 0.0	\$ 0.0	\$ 126,864.4

Operating leases do not transfer the benefits and risks of ownership as compared to capital leases. Payments are expensed over the life of the lease. Future year cost projections use the Consumer Price Index. Office space is the largest component of land and building leases.

Independent Auditors' Report

Office of Inspector General
United States Department of Defense

Report on the Financial Statements

We have audited the accompanying financial statements of the Office of Inspector General, United States Department of Defense (DoD OIG) which comprise the balance sheet as of September 30, 2015, and the related statements of net cost, changes in net position, and budgetary resources (hereinafter referred to as "financial statements" or "basic financial statements"), for the year then ended; and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 15-02 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence over the account balances and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Office of Inspector General, United States Department of Defense as of September 30, 2015, and its net costs, changes in net position, and budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis (MD&A)* be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board (FASAB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. All other sections exclusive of the financial statements, MD&A, and other RSI are presented for the purpose of additional analysis and is not a required part of the financial statements or RSI. This information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Prior Period Financial Statements Not Audited

The accompanying balance sheet of DoD OIG as of September 30, 2014, and the related statements of net cost, changes in net position, and budgetary resources for the year then ended, and the related notes to the financial statements, as of and for the year then ended were not audited, reviewed, or compiled by us and, accordingly, we do not express an opinion or any other form of assurance on them.

Other Reporting Required by *Government Auditing Standards*

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered DoD OIG's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the DoD OIG's internal control. Accordingly, we do not express an opinion on the effectiveness of the DoD OIG's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Exhibit A and B, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of DoD OIG's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described below in Exhibit A to be material weaknesses.

Finding 01: Lack of Adequately Documented and Implemented Internal Controls
DoD OIG lacks adequately documented internal control policies and procedures.

Finding 02: Lack of Documentation over Internal Accounting Information Systems
DoD OIG lacks documentation and awareness over the ownership of its internal accounting information systems.

Finding 03: Qualified SSAE16 of Service Provider's Financial Reporting Information System
DoD OIGs service provider received a qualified opinion over DoD OIGs financial reporting system.

Finding 04: Lack of Monitoring and Control Activities over Obligations
DoD OIG lacks adequate entity-level controls over their budget execution process.

A *significant deficiency* is a deficiency, or 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. We consider the deficiencies described below in Exhibit B to be significant deficiencies.

Finding 05: Significant Deficiency over Financial Reporting Presentation and Disclosure
DoD OIG lacks adequate training and monitoring over its financial statement presentation.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether DoD OIG's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 15-02. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described below in Exhibit C.

Finding 06: System's Noncompliance with the Federal Financial Management Improvement Act of 1996 (FFMIA)

DoD OIG has pervasive noncompliance with FFMIA in its accounting and management information systems.

DoD OIG's Response to Finding

DoD OIG's response to the findings identified in our audit is described in Findings 1 through 6. DoD OIG's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the DoD OIG's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the DoD OIG's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RMA Associates

Arlington, VA
August 31, 2016

Exhibit A: Material Weaknesses

Finding 01: Lack of Adequately Documented and Implemented Internal Controls

Condition:

DoD OIG lacks adequately documented internal control policies and procedures.

The significant majority of accounting and financial reporting processes are conducted by the Defense Finance and Accounting Service (DFAS) on behalf of DoD OIG. However, DoD OIG must design, implement, and maintain internal controls over financial information submitted to, and received from, DFAS, referred to as end-user controls. The objective of end-user controls is to provide DoD OIG with reasonable assurance that the control objectives of the service provider (DFAS in this instance) are being achieved.

Criteria:

OMB Circular A-123, Management's Responsibility for Internal Control

Cause:

Completing and documenting DoD OIG internal control policies and procedures has not been a priority.

Effect:

A lack of adequately documented internal control policies and procedures may result in noncompliance with OMB Circular A-123, which states that "Management is responsible for establishing and maintaining internal controls to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations."

Policies are used by management as a basis for control activities. Procedures put policy into action. Policies and procedures, therefore, are a form of risk management (by definition the purpose of a control activity). An absence of policies and procedures elevates control risk to the level where there is a reasonable possibility a material misstatement will not be prevented, or detected and corrected, in a timely basis.

Conclusion:

The majority of DoD OIGs processing, recording, and reporting function of financial transactions, account balances, and disclosures occur through DFAS. DFAS is a DoD service provider, which owns, operates, and maintains numerous accounting and management information systems. One of these systems is the Defense Departmental Reporting System

(DDRS), and is utilized by DoD OIG for transaction processing and financial reporting.

Instead of inputting financial information directly into DDRS, DoD OIG inputs financial transactions directly to DFAS through the Comptroller's Budget & Accounting System (CBAS). DFAS, in turn, processes and records all transactions and maintains records of the account balances in the Washington Allotment and Accounting System (WAAS). WAAS then updates DDRS with financial information. WAAS is an accounting information system owned and operated by the Washington Headquarters Services. DoD OIG only uses WAAS as a static database of all accounting information for review and reconciliation of DFAS reporting.

DFAS owns, maintains, and monitors the following systems relevant to DoD OIG financial reporting:

- **DDRS** is the standard DoD reporting system which produces Standard Financial Information Structure compliant budgetary reports and financial statements for the Military Services and Defense Agencies. DDRS is fully deployed for the Audited Financial Statements (AFS) and budgetary reporting.

DDRS is updated by WAAS through financial/budgetary information received from DoD OIG via CBAS and secure email. Once information is input into WAAS (by DFAS), DDRS is simultaneously updated.

- **Defense Civilian Payroll System (DCPS)** processes civilian payroll for DoD OIG personnel. Approved payroll data is received by DFAS via secure email, and DFAS processes the data through DCPS. DFAS separately makes the relevant updates in WAAS. Payroll is processed on a bi-weekly basis.
- **Mechanization of Contract Administration Services (MOCAS)** is the primary system used by DFAS to maintain data records pertinent to the administration and payment of contracts. Financial data relevant to contract disbursements is received by DFAS via CBAS. DFAS separately makes the relevant updates in WAAS.
- **Automated Disbursing System (ADS)** is the Intragovernmental Payment and Collection system for DoD OIG. Relevant data is received by DFAS via CBAS. DFAS separately makes the relevant updates in WAAS.
- **WAAS** is the "legacy" system which acts as a repository of accounting information for DoD OIG. WAAS may not be directly manipulated edited (e.g. by entering journal transactions) by DoD OIG. Financial information may only be input and adjusted by DFAS. All inputs into the information systems, except for DDRS, listed above are manually input into WAAS. Changes made within WAAS automatically interfaces updates into DDRS.

Since DoD OIG relies so heavily on DFAS and its systems, internal control policies and procedures must be in place at the end-user level to ensure that the risk of material

misstatements to inputs and outputs from DoD OIG will be prevented, detected, and/or corrected in a timely basis.

Recommendation:

Short-term recommendation (6-9 months):

DoD OIG should evaluate all end-user/complimentary controls documented by DFAS relevant to each information system. End-user controls should be relevant to all activity points in which DoD OIG submits or receives financial information.

DoD OIG should develop interim procedures which mirror (or substantially relate to) the end-user controls identified by DFAS.

Mid-term recommendation (9-18 months):

DoD OIG should perform a top-down analysis of its controls. This involves an initial evaluation of financial statement-level risks, which include management review and approval of monthly, quarterly, and annual financial reports. Management should evaluate its entity-level control related to:

1. Management oversight and allocation of responsibility;
2. Management override;
3. The internal risk assessment process; and,
4. Monitoring over inputs and outputs of financial information.

The analysis should then focuses on accounts, disclosures, and assertions for which there is a reasonable possibility of material misstatement. Management should evaluate qualitative and quantitative risk factors to identify significant accounts and disclosures, and their relevant assertions. Risk factors include:

- Account size and composition;
- Susceptibility to misstatement;
- Volume of activity, complexity, and homogeneity of transactions;
- The nature of the account;
- Accounting and reporting complexities;
- Exposure to loss, or to the possibility of significant contingent liabilities;
- The existence of related party transactions; and,
- Changes from the prior period.

Accounts which include some, or all, of the risk factors identified above include:

- FBwT;
- Gross Costs;

- Accrued liabilities; and,
- Outlays.

Once draft policies and procedures have been completed, drafts should be communicated to the Accounting and Budget teams for review and comment to ensure policies and procedures are plausible and conforms to each team's understanding of information flows. After a reasonable period of review (approximately one month), comments from each team should be reviewed and incorporated, as needed.

Long-term recommendation (over 18 months):

Management shall finalize and approve DoD OIG policies and procedures by 18 months. All policies and procedures should be effectively communicated to all team managers. Management may decide to communicate either through conference meetings or group-live training sessions. Management shall administer or delegate training of policies and procedures to all relevant DoD OIG employees and process owners.

Policies and procedures should be monitored through periodic, and as needed, reviews of control activities (i.e. management review of payroll timesheets). These reviews may be conducted by internal or external accountants, auditors, or other practitioners. All deficiencies identified within the control activities should be communicated to management for review and incorporation into policies and procedures.

Training on policies and procedures should be required for all relevant employees on an annual basis.

Management's Response: We will implement these controls by the end of 2nd quarter 2017.

We concur with this recommendation noting that final resolution will not occur until the OIG and Department fully implement financial management systems that capture and report data in a way that facilitates sound financial management. DAI is scheduled to be implemented at DoD OIG in 1Q17. As part of this systems implementation effort, the OIG is reviewing its financial management operations to fully utilize the capabilities of this new system and ensure that all processes support effective financial management. The DoD OIG obtains its core accounting and payroll services through a Service Level Agreement (SLA) with DFAS- Indianapolis. Some aspects of DFAS's processes and controls are not fully compliant with OMB Circular A-123, DoD Financial Management Regulation (FMR) and Federal Financial Management Improvement Act (FFMIA) and affect the DoD OIG's financial operations.

The DoD OIG CFO's staff will work with DFAS-Indianapolis to improve the DoD OIG's ability to produce accurate, auditable financial statements and other reliable management reports by implementing and documenting additional internal controls, both before and after DAI implementation. In addition, DoD OIG will leverage its internal controls over financial reporting (ICOFR) testing to either implement new internal controls or further refine existing controls.

Finding 02: Lack of Documentation over Internal Accounting Information Systems

Condition:

DoD OIG lacks documentation and awareness over the ownership of its internal accounting information systems which includes, the Washington Allotment and Accounting System (WAAS), Comptroller's Budget & Accounting System (CBAS), and Defense Travel System (DTS).

Criteria:

OMB Circular A-123, Management's Responsibility for Internal Control

Cause:

High turnover within the entity coupled with WAAS and CBAS being legacy systems led to a lack of awareness and documentation over ownership of the systems.

Effect:

As DoD OIG management is not aware of the owner of these systems. That is, management was unable to answer what party(ies) monitored, maintained, and managed, WAAS and CBAS. This will present control risks over the following areas:

1. Lack of accountability for system errors;
2. Unmonitored system processing and output;
3. Lack of security monitoring;
4. Lack of change management;
5. Lack of other monitoring necessary for management of information systems, e.g. review of system error reports.

These risks will serve to increase the likelihood of material misstatements in the financial statements.

Conclusion:

DoD OIG uses WAAS as a means to retrieve financial information to reconcile, review, and approve monthly/quarterly accounting records processed by DFAS. WAAS acts as a general and subsidiary ledger system which is updated by DFAS on a weekly basis (due to batch processing). DoD OIG's budget execution is processed through CBAS, and acts as an intermediary between DoD OIG and DFAS, while DoD OIG's travel is processed through DTS. All three of these systems play a key function in daily accounting transactions and reviews.

Management cannot rely on the output of these systems without a clearly defined knowledge of the entity responsible for its accounting information systems. DoD OIG must rely on the output of the information systems by performing manual control procedures (e.g. reconciliation, recalculation) in order to assure the output of the information systems is complete and accurate.

Furthermore, we identified a qualified opinion within the FY15 independent accountant's report on DTS in accordance with Statements on Standards for Attestation Engagements No. 16 – Reporting on Controls at a Service Organization (SSAE16). This examination includes providing positive assurance whether information technology (IT) control activities relevant to DTS were designed, implemented, and operating effectively to provide DFAS' management reasonable assurance that control objectives were being successfully executed. The report concluded that the following control objectives did not satisfy the reasonable assurance standard, and therefore are not being successfully executed:

1. Access Controls;
2. Configuration Management;
3. Segregation of Duties; and,
4. Computer Operations.

DoD OIG may consider working to document, approve, and communicate internal controls over the use of these three systems.

Recommendation:*Short-term recommendation (6-9 months):*

Management should document, approve, and communicate internal controls over the use of these systems. Controls over DTS should mirror, or substantially relate to, end-user controls and control objective weaknesses identified within the FY15 SSAE16 over DTS. Management should draft controls over CBAS and WAAS to include the following:

1. Management review of daily, monthly, quarterly, and annually submitted financial information to DFAS (not relevant to WAAS);
2. Management approval of daily, monthly, quarterly, and annually submitted financial information to DFAS (not relevant to WAAS);
3. Reconciliation of financial reports received by DFAS monthly, quarterly, and annually;
4. Management approval of above identified reconciliations;
5. Management review of journal voucher packages received by DFAS in excess of \$250,000; and,
6. Management approval of journal voucher packages received by DFAS in excess of \$250,000.

Mid-term recommendation (9 to 18 months):

See mid-term recommendations for Finding 01: Material Weakness in Internal Control over Financial Reporting - Lack of Adequately Documented and Implemented Internal Controls.

Long-term recommendation (over 18 months):

See long-term recommendations for Finding 01: Material Weakness in Internal Control over Financial Reporting - Lack of Adequately Documented and Implemented Internal Controls.

Management's Response: We will implement these controls by the end of 2nd quarter 2017.

The DoD OIG concurs with this recommendation. Because some aspects of DFAS's processes and controls affect the DoD OIG's financial operations, appropriate compensating controls will be developed and implanted to help ensure accurate and auditable financial data is routinely used to produce reliable management reports. The DoD OIG CFO's staff will work with DFAS-Indianapolis to improve the DoD OIG's ability to produce accurate, auditable financial statements and other reliable management reports by implementing and documenting additional internal controls, both before and after DAI implementation in the first quarter of fiscal year 2017. In addition, DoD OIG will leverage its ICOFR testing to either implement new internal controls or further refine existing controls.

Finding 03: Qualified SSAE16 of Service Provider's Financial Reporting Information System

Condition:

DoD OIG uses the Defense Finance and Accounting Service (DFAS) for the majority of its accounting and financial reporting needs.

DFAS maintains, monitors, and uses the Defense Departmental Reporting System (DDRS). DDRS is the standard DoD reporting system which produces Standard Financial Information Structure (SFIS) compliant budgetary reports and financial statements for the Military Services and Defense Agencies. DDRS is used for budgetary reporting and producing the quarterly and annual audited financial statements (AFS) for DoD OIG.

The Defense Departmental Reporting System (DDRS) received a qualified opinion resulting from an independent accountant's examination in accordance with SSAE16 for FY 2015.

Criteria:

OMB Circular A-123, Management's Responsibility for Internal Control

Cause:

The SSAE16 examination includes providing positive assurance whether information technology (IT) control activities relevant to DDRS were designed, implemented, and operating effectively to provide DFAS' management reasonable assurance that control objectives were being successfully executed. The report concluded that the following control objectives did not satisfy the reasonable assurance standard, and therefore are not being successfully executed:

- 1) "Data Table/File Maintenance" – Controls provide reasonable assurance that changes to reference data contained in the crosswalk and preprocessing tables within DDRS (-B, -AFS, -DCM) are authorized, applied, and tracked completely, accurately, and timely.
- 2) "Input" - Controls provide reasonable assurance that general ledger trial balance data (both Standard Financial Information Structure [SFIS] and non-SFIS compliant), data call, and adjustment information are received from authorized sources and are input into DDRS (-B, -AFS, -DCM) completely, accurately, and timely.
- 3) "Processing" - Controls provide reasonable assurance that general ledger trial balance data (both SFIS and non-SFIS compliant), data call, and adjustment information are processed completely, accurately, and timely.
- 4) "Output" - Controls provide reasonable assurance that financial statements, footnotes, and GTAS submissions sent from DDRS (-B, -AFS) are authorized, and are produced completely, accurately, and timely.

Because of these findings, DDRS received a qualified opinion for FY 15.

Effect:

Because of the automation, and lack of human interaction, involved in information systems, IT controls over input, processing, and output must be operating effectively to support the assertions that financial information is complete and accurate. Because of the above identified exceptions, DoD OIG must have the appropriate end-user controls in place in order to mitigate the risk of materially misstated financial statements.

Conclusion:

DDRS received a qualified opinion resulting from an independent accountant's examination of their control objects. To mitigate the risk of materially misstated financial statements DoD OIG should consider enhancing their end-user controls that relate to DDRS inputs and outputs.

Recommendation:

Short-term recommendation (6 to 9 months):

DoD OIG should enhance its end-user controls relevant to DDRS and financial reporting, including:

- Document, implement, and assess all end-user/complimentary controls and control objective weaknesses identified within the relevant FY 15 SSAE16;
- Implement training schedules for all end-users on control activities documented by management, not to be less than one group-live training session per year;
- Monitor controls implemented through periodic, and as needed, reviews of control activities. These may be performed through internal parties or an independent third-party auditor/accountant.

Mid-term recommendation (9 to 18 months):

See mid-term recommendations for Finding 01: Material Weakness in Internal Control over Financial Reporting - Lack of Adequately Documented and Implemented Internal Controls.

Long-term recommendation (Over 18 months):

See long-term recommendations for Finding 01: Material Weakness in Internal Control over Financial Reporting - Lack of Adequately Documented and Implemented Internal Controls.

Management's Response: We will implement these controls by the end of 2nd quarter 2017.

DoD OIG concurs with this recommendation. We recognize the impact that DFAS processes and systems have upon the DoD OIG financial management process and will take corrective action to strengthen our end user controls. In addition, the implementation of DAI will help to improve the overall DoD OIG financial management process. The DoD OIG CFO staff will

continue to work with DFAS-Indianapolis to improve the DoD OIG's ability to produce accurate, auditable financial statements and reliable management reports by implementing and documenting additional internal controls. In addition, DoD OIG will schedule the pertinent training for its end-users.

Finding 04: Lack of Monitoring and Control Activities over Obligations

Condition:

1. DoD OIG has operated under Continuing Resolutions (CR) for the first quarter of each of the prior three fiscal years. CRs are meant to apportion Federal funds to agencies when Congress is unable to agree on the annual appropriation budget. The purpose is to ensure agencies receive enough funding in order to meet their essential obligations. CRs are calculated specifically for each agency and are administered through the Office of Management and Budget. The calculation is based upon a percentage of the prior year expenditures for the agency.

CRs are also intended to control obligations and disbursements by mandating an aggregate obligation allowance which increases the agency's obligations over time. This is meant to control Government obligations while the appropriations are being debated and finalized.

Once CRs are made available to DoD OIG, the Budget Execution team had approved obligations for DoD OIG components by allotting the annual funds available for each component immediately upon receipt of the CR. This action puts DoD OIG at risk of obligating funds in excess of what has been approved and communicated. Rather, the Budget Execution team should have only allotted the obligations for the current quarter.

Although there were no violations of the ADA in FY14 or FY 15, this control deficiency had not been identified and remediated.

Note: This deficiency was identified in 2016, and corrective actions were implemented.

Criteria:

- OMB Circular A-123 - Management's Responsibility for Internal Control
- OMB Circular A-11
- OMB Bulletin 14-103

Cause:

DoD OIG had insufficient controls over the Budget Execution process.

Effect:

The deficiency led to a reasonable possibility that a material noncompliance with the ADA and OMB directives would not be prevented, detected, and corrected in a timely basis.

Recommendation:

We recommend DoD OIG management continue its remediation efforts over the Budget Execution process. Specifically, we recommend that management:

- Condition 1: 1) Review policies and procedures related to Budget Execution to determine their effectiveness
2) Review and approve Monthly Obligation Plans (MOP) prior to submission to OMB in order to ensure obligated funds are not above authorized limits.
3) Provide training to key process owners over management approved policies and procedures.
- Condition 2: 1) Management administer ADA training, specific to compliance and applicable statutes, to key process owners.
2) Provide additional training to key process owners over management approved policies and procedures.

Management Response:

We will implement these controls by the end of 2nd quarter 2017.

DoD OIG concurs with this recommendation. We will fully implement DAI in the first quarter of FY 2017. It is anticipated that this new system will significantly enhance our financial management and address most of the concerns identified in this finding. In addition, we will review all policies and procedures related to the monitoring and control of obligations and update them as needed; we will also prepare robust desk procedures and coordinate training for all affected personnel.

Exhibit B: Significant Deficiencies

Finding 05: Significant Deficiency over Financial Reporting Presentation and Disclosure

Condition:

DoD OIGs Mission Support Team (MST) is responsible for the final approval of the agency’s financial statements prepared by the Defense Finance and Accounting Service (DFAS). DFAS provides the basic financial statements, and MST prepares the additional supplementary information, including the Management Discussion and Analysis (MD&A), the Required Supplementary Information (RSI), and other information which assists in the understandability and relevance of the financial statements.

The preparation, review, and approval process over the Agency Financial Report is not documented. Rather, the process is communicated verbally and is not regimented.

We identified the following areas of the Agency Financial Report where improvements could be made.

Section	Affected Item
Agency Head Letter	Analysis of Entity's Financial Statements and Stewardship Information.
Note 19: Disclosures Related to the Statement of Changes in Net Position	Reconciliation of Appropriations on the Statement of Budgetary Resources to Appropriations Received on the Statement of Changes in Net Position
Note 20: Disclosures Related to the Statement of Budgetary Resources	Apportionment Categories for Obligations Incurred
Other Information	Combined Schedule of Spending
	Management Challenges
	Summary of Financial Statement Audit and Management Assurances
	IPIA as Amended by IPERA Reporting Details
	Other Agency-specific Statutorily Required Reports
	Freeze the Footprint data

Criteria:

- OMB Circular A-123 - Management's Responsibility for Internal Control, Section II Standards

- OMB Circular A-136 – Financial Reporting Requirements, Section II Performance and Accountability Report or Agency Financial Report

Cause:

DoD OIG has insufficient controls over the year-end financial package preparation process.

Effect:

The year-end Agency Financial Report contains misstatements, erroneous information, or are missing required disclosures/information.

Conclusions:

DoD OIG – MST lacks adequate design of internal controls over financial statement preparation.

Recommendation:

We recommend management document a financial statement preparation, review, and approval process with regimented steps and clear allocation of responsibility. Obtain CFO approval of draft policy and applicable procedures. Suggest the following:

1. Design and implement all DFAS-identified end-user controls relevant to DDRS financial reporting.
2. Include a checklist which mirrors OMB A-136 requirements with relevant DoD OIG financial statement account balances and disclosures.
3. Include a detailed process/checklist, based upon OMB A-136, which identifies required contents of the MD&A, RSI, RSSI, and OI.
4. Identify the Chief, Accounting & Travel as the first-level reviewer of the Agency Financial Report.
5. Identify the Chief Financial Officer as the final approver of the Agency Financial Report.

Management Response:

We will implement these controls by the end of 3rd quarter 2017.

DoD OIG concurs with this recommendation. We will prepare a robust desk procedure to document the financial statement process; this procedure will include a timeline, and identify all stakeholders, reviewers, and approvers. It will incorporate the appropriate end-user controls and checklists. It will be a living document incorporating new statutory and regulatory requirements, as well as lessons learned.

Exhibit C: Findings Related to Compliance

Finding 06: System's Non-Compliance with the Federal Financial Management Improvement Act of 1996 (FFMIA)

Condition:

DoD OIG has stated within their FY 15 Audited Financial Statements (AFS) that their information systems have not substantially complied with the Federal Financial Management Improvement Act of 1996 (FFMIA). Specifically, noncompliance exists with respect to applicable Federal financial management systems requirements and use of the United States Standard General Ledger (USSGL) at the transaction level.

Criteria:

OMB Circular A-123, Management's Responsibility for Internal Control

Cause:

DoD OIG's mission critical financial applications continue to be supported by legacy technology, and are in the process of replacement to address performance, flexibility, and system interface issues. Specifically, DoD OIG uses two separate accounting systems. One system, the Washington Allotment and Accounting System (WAAS) acts as a repository of financial transactions used by DoD OIG for reviews and reconciliations of service provider reporting. The other system, the Comptroller's Budget & Accounting System (CBAS) is used to process and communicate budget execution transactions.

Effect:

These two systems do not interface and, accordingly, DoD OIG is not in compliance with Federal financial management system requirements, which calls for a single, integrated financial system. As DoD OIG has two critical financial management systems that do not interface with each other, it increases the likelihood of material misstatements occurring.

Conclusions:

Both systems are not compliant with the USSGL. For example, the systems are not configured to perform accrual calculations, and therefore DFAS and DoD OIG must work together to manually calculate period-end accruals and input manual adjusting entries into the system. Also, personnel must use a combination of information inside and outside of that system to calculate unexpended appropriation transfers at the end of each reporting period. Neither system is able to process transactions in accordance with the USSGL at the detail level, resulting in the need to apply extensive manual processes to adjust balances in those systems prior to DoD OIG preparing its financial statements. The legacy systems being used by DoD OIG are

in the process of being replaced, and the DoD is currently developing an enterprise business system for certain Defense agencies, referred to as the Defense Agencies Initiative (DAI). DAI is expected to allow DoD OIG to comply with both the Federal financial management systems requirements and the USSGL at the transaction level. DoD OIG is projected to implement the new system in FY 2017.

Recommendation:

We recommend that DoD OIG continue to work with relevant DoD service providers, which include DFAS, the Defense Logistics Agency, and the Defense Civilian Personnel Advisory Service, to implement actions to replace its accounting systems to one that is fully integrated and in compliance with the requirements of FFMIA.

Management Response: We will implement these controls by the end of 2nd quarter 2017.

DoD OIG concurs with this recommendation. We will fully implement DAI in the first quarter of FY 2017. It is anticipated that this new system will significantly enhance our financial management and address most of the concerns identified in this finding. We will continue to work with the relevant DoD service providers and the Department of the Treasury to monitor any changes to the USSGL.

This Page Left Blank Intentionally



OFFICE OF INSPECTOR GENERAL
AGENCY FINANCIAL REPORT
FISCAL YEAR 2015

OTHER INFORMATION
(Unaudited)

Combined Schedule of Spending Office of the Inspector General For the Years Ended September 30, 2015 and 2014			<i>Dollars in Millions</i>
	2015	2014	
What Money is Available to Spend?			
Total Resources	\$ 363.4	\$ 355.6	
Less: Amount Available but Not Agreed to be Spent	(11.0)	(17.8)	
Less: Amount Not Available to be Spent	(29.4)	(17.6)	
Total Amounts Agreed to be Spent	\$ 323.0	\$ 320.2	
How was the Money Spent/Issued?			
Operation, Readiness & Support			
Personnel Compensation and Benefits	\$ 241.2	\$ 253.4	
Contractual Services and Supplies	75.5	125.3	
Acquisitions of Assets	3.2	6.5	
Other	0.0	(65.0)	
Total Operations, Readiness & Support	\$ 319.9	\$ 320.2	
Other			
Contractual Services and Supplies	2.6	3.1	
Acquisitions of Assets	0.5	0.7	
Other	0.0	(3.8)	
Total Other	\$ 3.1	\$ 0.0	
Total Amounts Agreed to be Spent	\$ 323.0	\$ 320.2	

The Combined Schedule of Spending (SoS) presents an overview of the funding received by the DoD OIG and how it was spent (i.e., obligated) during the reporting period. The SoS presents total budgetary resources and fiscal year-to-date total obligations for the reporting entity. The budgetary information in the SoS is presented on a combined basis and not a consolidated basis in order to remain consistent with the information reported on the Report on Budget Execution and Budgetary Resources (SF-133) and SBR.

INSPECTOR GENERAL'S SUMMARY OF MANAGEMENT AND PERFORMANCE CHALLENGES FOR FISCAL YEAR (FY) 2015

Each year, the Department of Defense Inspector General (DoD IG) prepares a statement summarizing the most serious management and performance challenges facing the Department and provides a brief assessment of the Department's progress in addressing these challenges.

For FY 2015, the DoD IG identified challenges in the following eight categories:

- Financial Management
- Acquisition Processes and Contract Management
- Joint Warfighting and Readiness
- Cyber Security
- Health Care
- Training and Equipping Afghan, Iraqi, and New Syrian Security Forces
- The Nuclear Enterprise
- Insider Threat

Detailed discussion of the DoD IG's statement and the Department management's response follows.

SUMMARY OF IDENTIFIED CHALLENGES

1. Financial Management

1-1A. Achieving Financial Statement Audit Readiness

IG Summary of Challenge

The Department's continuing financial management challenges impair its ability to provide reliable, timely, and useful financial and managerial data to support operating, budgeting, and policy decisions. Gaps in the financial framework harm the accuracy, reliability, and timeliness of the data used by the Department's leadership. Improving and sustaining good financial management processes is critical to achieving auditable financial statements and receiving unmodified opinions.

Achieving auditable financial statements is an ongoing, difficult task. The success of the DoD Financial Improvement and Audit Readiness (FIAR) effort depends on:

- Resolving material internal control weaknesses to ensure internal controls are designed and implemented properly, and are working effectively;
- Evaluating and remediating controls for information technology (IT) systems that materially affect the financial statements, including Enterprise Resource Planning (ERP) systems, custom-built legacy systems, financial systems, and non-financial feeder systems;
- Sustaining improvement in internal controls and systems to provide consistent and repeatable financial data used in decision making and reporting; and
- Monitoring progress in achieving milestones, developing comprehensive improvement initiatives across DoD functional areas, and holding managers accountable for the timely implementation of those efforts.

Congress required the Department to validate the DoD Statement of Budgetary Resources (SBR) and the other DoD financial statements as audit ready by September 30, 2014, and September 30, 2017, respectively. However, the Department continues to struggle to implement business transformation efforts. Additional relevant mandates include:

- [Public Law 111-383, Section 881](#), which requires the Department to establish interim milestones to achieve audit readiness of its financial statements earlier than September 30, 2017. These interim milestones for Military Departments and Defense Components call for each major element of the SBR, such as "civilian pay, military pay, supply orders, contracts, and the funds balance with the Treasury," to achieve audit readiness;
- [Public Law 112-81, Section 1003](#), which requires the Department have a plan to validate the SBR as audit ready by September 30, 2014. The plan must include interim objectives and a schedule of milestones for each Military Department and for the Defense agencies. The Department must develop and implement comprehensive improvement initiatives and monitor progress according to interim milestones. The Department may need to revise these initiatives and milestones as it identifies additional deficiencies and corrective actions as a result of the iterative FIAR process;
- [Public Law 112-239, Section 1005\(b\)\(1\)](#), which requires that plans to achieve audit readiness of the SBR "by September 30, 2014, include steps to minimize one-time fixes and manual work-arounds, be sustainable and affordable, and not delay the full auditability of financial statements"; and
- [Public Law 113-66, Section 1003\(a\)](#), which requires the Secretary of Defense to ensure a full audit of the DoD financial statements is performed for FY 2018 and the results of the audit are submitted to Congress not later than March 31, 2019.

Although the Department did not meet the 2014 deadline for full SBR audit readiness, the Department continues to make progress. Because the Department recognized it could not

achieve SBR audit readiness by 2014, it implemented an incremental approach to achieving SBR audit readiness. The Department chose to address SBR audit readiness by focusing on the current year information contained in the SBRs of the General Funds. Specifically, the FY 2015 SBR audits focus on current-year appropriation activity and transactions, which the Department calls the schedule of budgetary activity (SBA).

In December 2014, the Department awarded contracts to three independent public accounting (IPA) firms. The IPAs began audits of the Military Departments' General Fund SBAs reporting FY 2015 appropriations with the DoD IG providing oversight. Additionally, the budgetary activities of several other Defense organizations are under SBA examinations or completing mock audits. The Department seeks to achieve audit readiness for the SBR by the 2017 deadline originally planned for all financial statements.

Meeting the 2017 deadline for audit ready financial statements remains a significant challenge, as the Department must also focus on the audit readiness of the remaining portions of the SBR, implementation of the ERP system, and achieving audit readiness for the full financial statements. Additionally, results of the FY 2015 SBA audits may identify additional internal control weaknesses that require corrective action, which may further delay the Department's plans for achieving audit readiness.

The Department must continue to develop and implement a comprehensive plan, including interim objectives and a schedule of milestones, to achieve audit readiness of the full SBR for both the General and Working Capital funds. In addition, the interim objectives and milestones must address each major category of DoD assets, which includes general equipment, real property, inventory, and operating material and supplies, to achieve audit readiness of the full financial statements.

1-1B. Achieving Financial Statement Audit Readiness

IG Assessment of Progress

Although the Department is far from reaching an unmodified opinion on its financial statements, it has made progress. The DoD senior leadership has emphasized the importance of this goal and provided resources to achieve it. The DoD IG believes this increased senior leadership emphasis drives the Department's ability to accomplish its internal milestones and progress toward full SBR audit readiness to meet the 2017 audit readiness mandates.

According to the [May 2015 FIAR Plan Status Report](#) (FPSR), unmodified SBA audit opinions are not expected in the initial years. However, proceeding with audits helps the Department uncover remaining challenges and exercises its audit support infrastructure. In FY 2015, the Department plans on spending approximately \$619 million on audit readiness, validations, and audits for activities such as:

- Completing evaluation, discovery, and corrective actions of the Components and their service providers (e.g., Defense Finance and Accounting Service);
- Testing or verifying audit readiness after completing corrective actions and preparing management assertions;
- Supporting independent public accounting audit readiness validations and financial statement audits; and
- Additional financial and ERP systems.

Despite pervasive and longstanding DoD financial management challenges, the Army Corps of Engineers – Civil Works, and five other defense organizations received unmodified opinions on their FY 2014 financial statements, including the Defense Commissary Agency, Defense Contract Audit Agency, the Military Retirement Fund, Defense Financial Accounting Service, and Defense Health Agency Contract Resource Management. The Medicare-Eligible Retiree Health Care Fund received a modified opinion. The Department must sustain its achievements and advance in the remaining significant areas.

The Department continues to make progress toward meeting the audit readiness goals, as the Military Services have now asserted audit readiness on the General Fund SBA. The Department modified its strategy based on the U.S. Marine Corps (USMC) audit experience. The USMC encountered many challenges during this first type of audit, which resulted in disclaimers of opinion in FY 2010 and FY 2011, and an unmodified opinion in FY 2012 that was withdrawn in FY 2015 due to information discovered during the audit of the FY 2014 SBA. A disclaimer was issued for FY 2014. The USMC, the Navy, and the Department are using USMC's experience to correct weaknesses, as well as prepare the other Military Services for their eventual SBR audits. The Marine Corps is planning for another SBA audit in FY 2015 and a full SBR audit in FY 2016. The Department remains committed to the Marine Corps' incremental approach to achieving audit readiness on the SBR.

In January 2015, with the DoD IG providing oversight, the independent public accounting firms began audits of the Military Departments' General Fund SBAs for their FY 2015 appropriations. The General Fund SBAs include financial transactions directly related to appropriations received in FY 2015 and do not include financial transactions for appropriations received in prior fiscal years. Additionally, the budgetary activities of most of the other Defense organizations are under SBA examinations or completing mock audits.

The May 2015 FPSR reported the Department has nearly 90 percent of its General Fund FY 2015 budgetary resources under audit and the remaining budgetary resources are being readied for audit. The Department has expanded its focus to include the Working Capital Funds and remaining financial statements. Additionally, the May 2015 FPSR reported the Department has expanded its audit readiness priorities from budgetary data reported on the SBR to all financial transactions reported on the balance sheet, statement of net cost, and statement of changes in net position. The Department also reported that achieving future audit readiness milestones will be a challenge for all components because of remaining financial management issues that cut across the Department.

The May 2015 FPSR recognized that the Department faces many difficult challenges to audit readiness. Some of the challenges are more easily resolved than others, but several will be difficult to address and are critical to success, including:

- Integration of service providers
- Systems audit readiness, such as dependency on legacy and service provider systems
- Attracting and retaining qualified personnel; and
- Audit-related impediments caused by the unique challenges of some business processes, sub-allotments, and sensitive activities which require a standard framework and process for the appropriate handling of classified and unclassified documents and data during audit.

1-1C. Achieving Financial Statement Audit Readiness

Department Response

The Department generally agrees with the DoD IG's assessment of the Department's status and progress in achieving financial statement audit readiness. The Department has made significant progress toward the full audit readiness and the September 30, 2017, deadline. Increased focus from senior leadership has been essential, and the Department is on track to meet its goals.

In FY 2015, the Department achieved a critical interim milestone when the Military Departments began audits of their General Fund Schedules of Budgetary Activity (SBAs). Additionally, most of the material, other Defense organizations went under SBA examination or completed mock audits of their budgetary activities. Going under audit is an essential part of the DoD audit strategy and is consistent with the feedback received from GAO, the DoD IG, and some members of Congress.

The FY 2015 audits are proving invaluable to the Department. The process allows the Department to test its audit infrastructure and highlights dependencies between organizations. Auditor-identified deficiencies are prioritized and carefully tracked. Audits also facilitate the workforce's transition into an environment of being under annual audit.

Although limited in scope, the audits of current year budgetary funding are still huge undertakings, requiring considerable resources and triggering thousands of auditor requests. Other resources continue to be dedicated to audit readiness activities, such testing internal controls, migrating to an audit ready systems environment, and remediating remaining deficiencies. Working groups are forming to address critical path items. The Department is also working closely with standards setters, such as the Federal Accounting Standards Advisory Board (FASAB), to resolve long-standing policy issues and find a cost-effective way to prepare for an audit of DoD's full financial statements.

Over the next two years, the Department will continue to expand the scope of audits while sustaining a stronger, more disciplined environment until all full audit readiness is achieved. Lessons learned from other federal agencies suggest that the first years auditing the full financial statements will not result in a positive opinion. However, the Department is committed to resolving all issues until a positive opinion is achieved and sustained.

**1-2A. Modernizing Financial Systems
(Enterprise Resource Planning)**

IG Summary of Challenge

To develop effective financial management processes throughout the Department, the Department continues to implement new financial management systems and business processes. The DoD IG believes properly planned and integrated systems with strong internal controls are critical to providing useful, timely, and complete financial management data and achieving auditability. Timely and effective implementation of the ERP systems will enable the Department to achieve its financial improvement and audit readiness goals.

The Department noted in the 2015 FPSR that the ERP systems are essential to its audit readiness efforts. However, not all ERP systems will be fully deployed for the FY 2015 SBA audits or the 2017 readiness deadlines. This will require the Department to continue to rely on legacy systems. Specifically, the May 2015 FPSR reported that the "Department is moving toward a target systems environment that significantly reduces the number of legacy systems. However, many of the legacy systems scheduled to be replaced will not be replaced by the audit readiness deadline of September 30, 2017. The Department will undergo audit in FY 2018 using both legacy systems and systems that will be part of the Department's target systems environment, including ERPs."

**1-2B. Modernizing Financial Systems
(Enterprise Resource Planning)**

IG Assessment of Progress

The Department plans to spend about \$15 billion to develop and implement ERP systems. These systems have incurred cost increases and schedule delays. The Department noted some ERP systems will not be fully deployed by the 2014 and 2017 audit readiness dates; therefore, it must continue to rely on legacy systems. Additionally, the Department plans to spend about \$60 million in FY 2015, and more than \$250 million over the next five years, on financial systems for activities such as designing, developing, and deploying audit-ready compliant systems as well as implementing cost-effective changes to legacy systems that will be part of the systems environment. Relying on legacy systems increases the risk that the audits of the FY 2015 SBAs may result in modified opinions and the Department will not meet the goal of full financial statement audit readiness by September 30, 2017. Reliance on legacy systems, compounded by schedule delays and poorly developed and implemented ERP systems, will diminish the savings expected from transforming operations through business system modernization.

Additionally, reliance on legacy systems and the number of unique instances of each system increases the cost of audits.

Furthermore, without fully deployed ERP systems, the Department will be challenged to produce reliable financial data and auditable financial statements without resorting to additional data calls and manual workarounds to provide financial data on a recurring basis. As a result, the Department may need to rely on a combination of ERP systems and legacy business and financial systems to conduct the SBA and SBR audits.

The Department has not reengineered its business processes to the extent necessary. Instead, it has often customized commercial ERP systems to accommodate existing processes. This creates a need for system interfaces and weakens controls built into each ERP system. The ERP systems were designed to replace numerous subsidiary systems, reduce the number of interfaces, standardize data, eliminate redundant data entry, and facilitate end-to-end business processes while providing a foundation for sustainable audit readiness. However, the numerous interfaces between the ERP systems and existing systems may be overwhelming and inadequately defined. Each interface presents a risk that the system might not function as designed, and prevents the linking of all transactions in an end-to-end process. The Department needs to ensure ERP system development addresses the required business processes and functions.

Without the effective and timely development and implementation of ERP systems and needed senior level governance, the Department will continue to struggle to improve its financial management processes; achieve long-term sustainability of those improvements; and provide accurate, timely, and meaningful financial management information for internal and external users.

Recent audits continue to find that system program managers have not configured systems to report U.S. Government Standard General Ledger financial data using the DoD Standard Financial Information Structure. Additional audits have found the Department has not sufficiently reengineered its business enterprise architecture processes nor incorporated the functionality in ERP systems. The Department has established certification requirements, and the Deputy Chief Management Officer and Deputy Chief Financial Officer have established validation and certification procedures for implementing Standard Financial Information Structure requirements and ensuring business process reengineering has taken place. However, these procedures were not stringent enough to ensure compliance.

In FY 2014, the Joint Interoperability Test Command began to verify financial management systems compliance. Specifically, Joint Interoperability Test Command began to perform compliance verifications across several areas, including DoD Chart of Accounts, U.S. Government Standard General Ledger transaction posting logic, Standard Financial Information Structure business rules, Defense Departmental Reporting System trial balance interface specifications, and Standard Line of Accounting and Standard Financial Information Structure 10.0 interfaces. Five systems were to undergo pilot testing before a more extensive program was implemented. Initial testing results indicate more needs to be done to ensure financial management systems comply with Treasury and DoD standards and policy.

**1-2C. Modernizing Financial Systems
(Enterprise Resource Planning)**

Department Response

The Department is committed to supporting improvements to financial processes through the implementation of ERP systems. In support of these efforts, the Department has been working diligently to improve business processes, oversight of the development of the ERP systems, and implementation of formal business process reviews in support of auditability.

While it is true that legacy systems will continue to be employed during the development and full deployment of the ERP systems, the implementations that have already occurred throughout the Department have resulted in the ability to phase out dozens of legacy systems. Several of the Department's ERP systems have been or will be implemented to support the 2017

auditability goal. However, where we are dependent on legacy systems, the Components' Financial Improvement Plans incorporate actions necessary to ensure that accurate, reliable financial information is reported.

Modernizing DoD business systems is a key aspect of our overall effort to achieve and sustain auditability. The Department plans to achieve the audit goals with a combination of both target and legacy systems. While taking pro-active steps to align individual ERP system programs with auditability outcomes, we also are focused on delivering audit-ready processes and controls that will remain outside the ERP systems. This will allow us to develop a sustainable business environment that can be cost-effectively audited.

The ERP system programs, by their very nature, are designed to:

- Handle detail transactions in a defined end-to-end process;
- Enforce process and execution standardization among implementing organizations;
- Manage consolidated business data in a single repository that allows centralized access control; and
- Facilitate the flow of information both within an organization and with external stakeholders.

These design principles within the ERP system directly enable capabilities essential to auditability, such as the ability to trace all transactions from source to statement; the ability to recreate a transaction; documented, repeatable processes and procedures; demonstrable compliance with laws, regulations and standards; and a control environment that is sufficient to reduce risk to an acceptable level.

Essentially, ERP system are acquired with industry best practices/"to-be" processes embedded within them. Each of the Department's ERP system programs went through significant, up-front blueprinting and gap analysis to determine which configuration or customization was necessary for the system to work within its particular business environment. The Department has focused on properly enforcing compliance with the target financial management environment, built on a backbone of the core ERP systems and aligned with the Business Enterprise Architecture's end-to-end processes. The Joint Interoperability Test Command testing of systems for compliance with standards is expanding to review over a dozen systems in both FY 2016 and FY 2017. This testing process also includes establishment of corrective action plans to resolve identified issues and for follow-up testing by the Joint Interoperability Test Command to validate corrective actions where needed.

The Department's investment management process ensures:

- Investments are aligned to functional strategies;
- Allow the Department to make more informed investment decisions;
- Eliminate legacy systems that are no longer required;
- Enhance interoperability; and
- Help the Department transform to an environment where business applications can be rapidly deployed on a common computing infrastructure.

The investment review process also ensures each investment is an appropriate use of taxpayer dollars and aligns to the Department's business architecture and our shared goal of delivering agile, effective and efficient business solutions that support and enable our warfighters.

To implement this investment management process, the Deputy Chief Management Officer issued guidance to ensure that the Department continues to treat its business system investments with the firmness of purpose and discipline that will enable cost savings to be redirected to critical operational needs of the warfighter. The guidance, updated annually, includes an integrated business framework to align broad Departmental strategy with functional and organizational strategy, to guide system implementations. The integrated business

framework utilizes Functional Strategies and Organizational Execution Plans (OEP), to help achieve the Department's target business environment.

The Financial Management (FM) Functional Strategy describes the Department's financial management business mission area's strategic vision, goals, target environment, and expected outcomes over the next five years. Key components of the FM functional strategy include: FM data standards, process/system improvements, and how we can leverage technology to assist the Department improve efficiency and effectiveness of FM processes.

In response to Principal Staff Assistant's (PSA) functional strategies, the Military Departments and Defense Agencies develop OEPs that describe how their business system portfolios will achieve the strategic directions and initiatives articulated in the strategy. The OEPs also provide more detailed information on how information technology investments align to the functional strategy initiatives.

1-3A. Improper Payments

IG Summary of Challenge

The Department's inadequate financial systems and controls hamper its ability to minimize improper payments. Improper payments, a longstanding problem in the Department, are often the result of unreliable data, a lack of adequate internal controls, or both. In addition, the pace of operations and volume of DoD spending creates additional risk for improper payments and hinders its ability to detect and recover those improper payments. These payments increase the likelihood of fraud. As a result, the Department lacks assurance that billions of dollars of annual payments are disbursed correctly. The Department faces difficulties in the completeness and accuracy of its improper payment reviews and the information reported. Additionally, the lack of an auditable SBR leaves the Department unable to reconcile outlays to the gross outlays reported in the SBR to ensure all required payments for reporting purposes have been captured. These areas require improvement before the Department will be able to provide complete and accurate information on its estimated amount of improper payments.

1-3B. Improper Payments

IG Assessment of Progress

Although the Department made strides to improve the identification and reporting of improper payments, and took many corrective actions to implement recommendations made by the DoD IG, more work is needed to improve controls over payments processed throughout the Department.

In May 2015, the DoD IG reported the Department complied with five of the six improper payment reporting requirements for FY 2014. Although improper payment rates for the reported payment programs were below the Office of Management and Budget established threshold, the Department did not achieve its improper payment reduction targets for one of eight payment programs with established targets. For the third consecutive year, the DoD Travel Pay Program did not meet its target rate. Failure to attain reduction targets indicates that additional corrective actions are needed to reduce improper payments. The DoD IG will perform oversight on the DoD Travel Pay Program to determine whether DoD actions to reduce improper payments in the DoD Travel Pay Program were effective.

In addition, the Department had defined deficiencies methodologies for two of the nine payment program areas that could affect the reliability of DoD's improper payments estimates. The DoD IG also recommended that the Department improve the statistical precision of improper payments estimates in seven of the DoD payment programs through the use of stratified sample designs.

DoD IG commends the Department for aggressively pursuing recovery of identified improper payments, but unless the Department continues to improve its methodology for reviewing its disbursements, it likely will not identify and accurately estimate the amount of improper

Payments. As a result, the Department will miss opportunities to identify causes of and implement effective corrective actions to prevent future improper payments.

1-3C. Improper Payments

Department Response

The Department appreciates DoD IG’s recognition of our efforts to minimize improper payments and our aggressive pursuit to recover identified improper payments. The Department revised its sampling methodology to ensure it meets or exceeds the minimum requirements in accordance with the Financial Management Regulation to ensure compliance with Improper Payments Elimination and Recovery Act (IPERA), as amended, and The Department has taken actions to develop corrective actions plans at the component level to improve the integrity of the post-payment review results, and we continue to take ownership to address the recommendations in the latest DoD IG and Government Accountability Office (GAO) reports.

While the Department continually strives to reduce improper payments, it should be noted that the payment error rates experienced in most of the Department’s programs are already low. The Department is taking steps to implement and enforce existing internal controls and working with the military services and components to implement effective front-end controls to prevent improper payments. Additionally, the Department plans to pilot a modernized travel system that will address many improper payment causes.

All of these actions, coupled with the Department’s progress toward achieving audit readiness, will increase public confidence in the Department’s stewardship of taxpayer dollars as well as strengthen the fundamentally sound DoD improper payments program.

2. Acquisition Processes and Contract Management

2-1A. Enhancing the Acquisition Workforce

IG Summary of Challenge

Ensuring that the acquisition workforce is adequately sized, trained, and equipped to meet the Department’s needs is an ongoing leadership challenge. The Department’s leadership acknowledges the importance of employing and managing its acquisition workforce to ensure the right personnel are in the right positions at the right time.

Since 2010, the Better Buying Power (BBP) initiatives have focused on improving acquisition performance. Specifically, BBP 2.0 focused on enhancing professionalism and equipping the Department’s acquisition professionals with the best tools to facilitate making solid acquisition decisions. In an effort to strengthen innovation and technical excellence, the Implementation Directive for BBP 3.0, Achieving Dominant Capabilities through Technical Excellence and Innovation, was released on April 9, 2015. BBP 3.0 strengthens the technical capability of and encourages innovation by the Department’s acquisition workforce to achieve greater efficiency and productivity. Considering the fiscal pressures on the Department, it continues to invest in expanding the capacity of the acquisition workforce. The Department must improve procurement outcomes by providing essential education and training.

2-1B. Enhancing the Acquisition Workforce

IG Assessment of Progress

The Department continues to recognize the importance of the acquisition mission and the need for workforce planning and development strategies. The Department slightly increased the total number of acquisition personnel to 152,651 civilian and military personnel as of the second quarter of FY 2015, up from 150,465 personnel in FY 2014. As in the previous years, the

Department's concerns are not only with sustaining a sufficient workforce size, but also with the training and development of those with acquisition responsibilities.

In FY 2016 budget estimates, the Department requested \$84.1 million for the Defense Acquisition Workforce Development Fund. The Department intends to use the fund to improve the defense acquisition workforce through targeted hiring and initiatives to improve training, development, qualifications, and professionalism. It is critical for the Department to advance the skills of the acquisition workforce throughout their careers so the Department can achieve increased buying power and improve acquisition outcomes.

2-1C. Enhancing the Acquisition Workforce

Department Response

The Department concurs with the DoD IG's statements on the challenge and progress made in enhancing the acquisition workforce. DoD senior acquisition leadership is continuing its emphasis on responsibly sustaining and strengthening the capability and professionalism of the acquisition workforce. Sufficient workforce capacity and capability is critical to improving acquisition productivity, increasing buying power, and equipping the warfighter for technological dominance.

2-2A. Weapon System Acquisition

IG Summary of Challenge

The Department remains challenged in its management of Major Defense Acquisition Programs. Over the past year, the Department's Major Defense Acquisition Programs portfolio reduced from 80 programs to 78. More programs are started than can be funded and many programs must compete for funding. The Department should continue to look for a better balance between its limited resources and the capabilities needed to succeed in current and future conflicts. Failure to do so can jeopardize other acquisition programs and limit the Department's ability to execute warfighting operations effectively. Acquisition experts of various backgrounds (government and industry) continue to emphasize the need for strong accountability and leadership throughout the lifecycle of a weapon system.

2-2B. Weapon System Acquisition

IG Assessment of Progress

The BBP initiatives encompass a set of fundamental acquisition principles to achieve greater efficiencies through affordability, cost control, elimination of unproductive processes and bureaucracy, and promotion of competition. BBP 3.0 initiatives are designed to:

- Create affordable programs;
- Establish dominant capabilities while controlling lifecycle costs;
- Incentivize productivity in industry and government;
- Incentivize innovation in industry and government;
- Eliminate unproductive processes and bureaucracy;
- Promote effective competition;
- Improve tradecraft in acquisition of services; and
- Improve the professionalism of the total acquisition workforce.

The Department’s revision of Instruction 5000.02 in January 2015 incorporated its BBP initiative memorandum, representing an effort to improve the acquisition process. Congress and the Department also proposed legislative and policy changes to address the inefficiencies of the current acquisition process and improve weapon systems procurements. The enactment of the Weapon Systems Acquisition Reform Act of 2009 and the Department’s revision of Instruction represent efforts to improve this process. The Department has made progress, but still struggles with programmatic problems such as cost overruns and schedule delays of acquisition programs. The DoD IG continues to identify challenges in acquisition such as:

- Requesting waivers and deferrals from operational test requirements;
- Certifying program readiness for initial operational test and evaluation;
- Documenting the acquisition process for defining, validating, funding, and executing requirements;
- Meeting system performance requirements;
- Determining fair and reasonable prices for spare parts;
- Acquiring excess spare parts inventory; and
- Managing performance-based logistics contracts.

DoD IG has made recommendations to address these challenges and the Services have made progress in implementing them. Given the prospect of shrinking or static defense budgets, it is important that the Department remains vigilant in its oversight role and minimize risk during the acquisition process.

2-2C. Weapon System Acquisition	Department Response
	<p>As the Inspector General notes, the Department recently issued BBP 3.0 and a revised DoD Instruction 5000.02 reflecting our commitment to continuous improvement of the defense acquisition process. Among the many initiatives captured in those policies are actions designed to: improve the accountability and quality of DoD acquisition leadership; continue our emphasis on reducing cost and establishing thoughtful business arrangements; ensure that requirements are fully supported and carefully reviewed prior to program initiation; and, address program affordability as a systematic element of acquisition decision making. All of these are critical to ensuring we make the best use of available resources so our warfighters have the capabilities they need. The revised policies also rearticulate and clarify the principles of effective acquisition decision making to ensure that we make thoughtful and well informed acquisition decisions. In addition, the Department is conducting annual acquisition system assessments to determine whether our policies are achieving stated objectives and to focus management attention on process elements that need to be improved.</p>
2-3A. Contract Management	IG Summary of Challenge
	<p>The Department struggles to provide consistent effective oversight of its contracting efforts. The Department continues to face contracting deficiencies in these areas:</p> <ul style="list-style-type: none"> • Obtaining adequate competition in contracts; • Defining contract requirements; • Overseeing contract performance; • Obtaining fair and reasonable prices; and

- Maintaining contract documentation for contract payments.

Service contracts represent more than 50 percent of the Department’s contract spending. The Department faces several challenges in contract oversight and administration of service contracts. DoD IG audits continue to identify insufficient contract oversight by the Department. Insufficient oversight subjects the Department to risk overpaying for increases in contract costs and contractor performance that does not satisfy contract requirements. This leaves the Department vulnerable to increased fraud, waste, and abuse.

The Department continues to face challenges in obtaining fair and reasonable prices for parts. DoD IG audits first started identifying problems with price-based acquisition and commercial pricing in the late 1990s. However, legislative changes allowing contracting officers to request information on labor costs, material costs, and overhead rates for commercial items did not begin until 2008. More recently, the Department uses a new performance-based logistics (PBL) arrangement, which creates a new challenge in obtaining fair and reasonable prices for parts. The Services are procuring parts from the weapons systems contractors instead of other sources, such as the Defense Logistics Agency. DoD IG found that these parts often were purchased unnecessarily and at higher prices than if the Department used existing Defense Logistics Agency inventory.

2-3B. Contract Management

IG Assessment of Progress

The Department continues to strengthen contracting and has issued policy, procedures, and guidance to address current contracting challenges. The Department began the BBP effort in 2010 and continued the second phase of the initiative, BBP 2.0, in April 2013. It started the third phase of the initiative, BBP 3.0, in April 2015. BBP 3.0 has eight areas of focus, and three of those areas address the following contract management challenges:

- Promote effective competition;
- Improve tradecraft in acquisition of services; and
- Incentivize productivity in industry and Government.

When competition is applied effectively, it results in lower costs to the Government, greater innovation from industry, and added savings to the taxpayer. To promote effective competition, BBP 3.0 emphasizes competition strategies with initiatives to create and maintain competitive environments and increase small business roles and opportunities.

Because service contracts make up the majority of the Department’s purchases, the BBP 3.0 initiative to improve tradecraft in the acquisition of services is critical. For the acquisition of services, the Department is focusing on improving requirements definitions for services, strengthening contract management outside the normal acquisition chain, and developing enterprise approaches for improving the effectiveness and productivity of contracted engineering and technical services, among other initiatives.

To further its goal of incentivizing productivity in industry and government, BBP 3.0 will increase the use of incentive-type contracts, implement Service-specific superior supplier incentive programs to drive healthy competition among industry, and increase effective use of PBL arrangements. When PBL arrangements are properly structured and executed, this effort achieves improved readiness at significant savings. However, PBL success depends on the workforce having the expertise and support to properly develop and implement the PBL concept.

Implementing BBP 3.0 continues the efforts to pursue programs that are affordable by mandating that managers identify and pursue “should cost” savings opportunities, providing effective incentives to industry, emphasizing competition, reducing bureaucracy, improving acquisition of contracted services, and building professionalism.

Even with the implementation of BBP 2.0 and the initiation of BBP 3.0, the Department continues to struggle with implementing Federal Acquisition Regulation revisions on the use of cost-reimbursement contracts. Contracting activities are still challenged in:

- Obtaining approval for cost-reimbursement contracts at least one level above the contracting officer;
- Justifying cost-reimbursement contracts;
- Defining requirements for service contracts adequately;
- Conducting sufficient price analysis for commercial spare parts;
- Determining how requirements under contracts could transition to firm-fixed price in the future; and
- Providing Government resources to be available to monitor cost-reimbursement contracts.

2-3C. Contract Management

Department Response

Contract Management continues to be a high priority for DoD leadership. In the February 2015 GAO report, "High-Risk Series: An Update," GAO acknowledged the Department's sustained leadership commitment to addressing these challenges. As a result of that leadership commitment and the progress made, the GAO removed the appropriate use of contracting techniques and approaches from the contract management high risk area. Three segments remain in this GAO High Risk area: 1) the acquisition workforce, 2) service acquisitions, and 3) operational contract support.

The Department continues to work aggressively to resolve the issues in the DoD IG's summary of challenges and assessment by taking a number of steps to improve those identified. Key actions include:

Efforts to Improve Competition

On October 29, 2014, the Director, Defense Procurement and Acquisition Policy (DPAP) issued a memorandum entitled, "Publication of DoD Competition Reporting – 4th Quarter FY 2014," announcing the Under Secretary of Defense for Acquisition, Technology and Logistics (USD (AT&L)) plan to address competition as a recurring Business Senior Integration Group (B-SIG) agenda item. To support preparation and increase visibility and accountability, DPAP initiated publication of quarterly competition data. Subsequently, DPAP issued memoranda with competition achievement data for the first, second, and third quarters of FY 2015. The memoranda are posted on:

Through 2015, quarterly B-SIG meetings continued with senior leader focus and attention on competition measures to increase visibility and accountability, and also focused on emerging tools, trends and guidance useful for the Military Departments and Defense Agencies to increase competition and overcome barriers to competition. During the June 2015 B-SIG meeting, the USD (AT&L) expressed an interest in transitioning from an annual targeted goal based on actuals to an approach that sets goals relative to a plan that can be actively managed for more meaningful and achievable results. For the FY 2016 Competition measure, the Director, DPAP is soliciting input from the Military Departments and Defense Agencies on this forward looking approach. Competition will continue to be tracked at quarterly B-SIG meetings.

On April 13, 2015, the Acting Director, DPAP signed a memorandum to the Components entitled, "Noncompetitive Contracts Awarded Based on Urgency." This addressed three recommendations in GAO Report GAO-14-304, "Federal Contracting: Noncompetitive contracts Based on Urgency Need Additional Oversight," dated March 25, 2014.

On April 20, 2015, the Defense Federal Acquisition Regulation Supplement (DFARS), Procedures, Guidance, and Information (PGI) (Case 2014-P021) incorporated the guidance and

requirements of the USD (AT&L) August 2014 memorandum, "Actions to Improve Department of Defense Competition."

Improve Tradecraft in Acquisition of Services

On June 1, 2015, the Deputy Director, Services Acquisition in DPAP, as the newly designated Functional Lead (FL) for services acquisition (SA), signed an updated Acquisition of Services Functional Integrated Product Team (FIPT) Charter which includes focused goals for the next two years. These goals include improving requirements workforce tracking, defining a services acquisition qualification program, improving marketing for the SA training website, supporting training products and practical tools, and developing tracking metrics. Several of these efforts are underway. The FIPT team established criteria for identifying the non-Defense Acquisition Workforce Improvement Act (DAWIA) workforce with acquisition-related responsibilities, defined the competencies needed, and identified several training sources for the variety of skills required and present within this workforce. The FIPT is identifying gaps in training coverage to continue improvement and/or development of additional training curricula. Special training sessions are being supported with Defense Acquisition Workforce Development Fund (DAWDF) funds, including special sessions of Defense Acquisition University's ACQ 265 and COR 222 classes solely for non-DAWIA services community stakeholders.

In 2015, the Functional Domain Experts (FDEs) continued to analyze their portfolios and identify areas for active management. Their analysis includes identifying/understanding what services are contained within their portfolios; characteristics of contract spend in their portfolios, such as amount, competition rates, and contract types; vendor base characteristics; and what services may be common across Military Departments and Defense Agencies. The analysis informed the FDE development of metrics and goals for effectively managing their domains.

The PDUSD (AT&L), as the Department's Senior Services Manager directing each FDE to develop their metrics and FY 2016 goals, has met regularly with the FDEs to ensure appropriateness of these metrics and goals. Despite FDE domains containing different sets of capabilities and mission support, there are some common acquisition metrics that will be collected across the domains to include competition rates, small business rates, fragmentation (number of vendors), and types of contracts. Goals are being set in these areas against portfolio execution. Additional metrics regarding general training curriculum and student throughput are being implemented as well.

Acquisition Workforce (Contracting)

The DoD Contracting Workforce successfully completed a Contracting Competency Assessment in 2008-2009, with 86 percent participation. A reassessment of 55 percent of the contracting workforce was completed in September 2014. DPAP and the Military Components are in the early stages of analyzing the data from the assessment to determine gap areas across the contracting workforce and at the Component and field office levels. The results will inform human capital actions/workforce planning; update/initiate training, increase/improve leadership developmental opportunities, and allow the Department to make informed and sustained investments in the workforce, to include quality-focused initiatives to strengthen the capability and readiness of the total acquisition workforce.

As the AT&L Functional Leader for the Contracting, Purchasing, and Industrial/Contract Property Management career fields, the Director, DPAP, chaired quarterly Contracting FIPT meetings (CONFIPT). In 2015, the CONFIPT coordinated on Defense Acquisition Workforce Improvement Act (DAWIA)-related certification and workforce issues and participated in a number of AT&L-led workgroups to implement BBP initiatives. The most significant is the participation and active support to the AT&L Key Leadership Position (KLP) Qualification Board working group that developed the documentation and process to implement the USD (AT&L) KLP guidance. The FIPT completed a comprehensive review of the Component KLP data and existing warrant boards or Head of Contracting Activity (HCA) equivalent processes to determine if a Joint Qualification Board was needed for the Program Lead Contracting Officer KLPs. The FIPT supported the ongoing efforts to develop and implement the Acquisition Workforce Qualification Initiative (AWQI) at the direction of the Assistant Secretary of Defense (Acquisition)

(ASD (A)), and reviewed the extensive work completed by the AWQI project teams for the Contracting, Purchasing, and Property career fields. The CONFIPT effort resulted in the validation of the qualification standards for each competency element. The FIPT contributed to information briefed at the quarterly AT&L Workforce Management Workgroup meetings and Senior Steering Boards, and coordinated updates to the training assets with the Defense Acquisition University (DAU). The FIPT completed a review of the DAWIA training standards, competency models, and position category descriptions for the Contracting, Purchasing, and Property Career Fields for the annual Functional Leader certification.

DPAP continues to collaborate with DAU on the curriculum for the Contracting, Purchasing, and Industrial/Contract Property Management career fields. Efforts to improve acquisition workforce training continued in FY 2014 and 2015 with these Continuous Learning Courses (CLC) being updated as reflected in the DAU iCatalog: CLC 018, Contractual Incentives, in January 2015; CLC 023, Commercial Item Determination Executive Overview, also in January 2015; CLC 058, Introduction to Contract Pricing, in March 2015; CLC 025, Small Business Program for Contracting Officers, in April 2015; CLG 006, Certifying Officer Legislation Training for Purchase Card Payments, in May 2015; and CLC 048, Export Controls, in September 2015. Important updates in 2014 to DAU continuous learning modules include: CLC 028, Past Performance Information; CLC 055, Competition Requirements; and CLC 051, Managing Government Property in the Possession of Contractors, all completed in March 2014. CLC 065, Suspension and Debarment, was updated in June 2014.

Additionally, among the top ten DAU continuous learning modules taken as of the fourth quarter in FY 2015 are: CLG 004, DoD Government Purchase Card Refresher Training, with 36,866 student graduates; CLG 001, DoD Government Purchase Card, with 29,342 graduates; CLG 005, Purchase Card Online System, with 25,105 graduates; CLC 106, COR with a Mission Focus, at 21,877 graduates; CLC 222, Contracting Officer's Representative Online Training, with 20,568 graduates; and CLC 206, COR in a Contingency Environment, with 6,658 students completing the course. DAU, as approved by the respective Functional Leader, has also incorporated Performance-Based Logistics Training assets LOG 235 and CLL 011 into the Core Plus Guides of the Program Management, Contracting, and Engineering career fields. Other important learning assets approved by the Functional Leader for addition to the Core Plus Development Guide for Contracting are: EVM 101, Fundamentals of Earned Value Management; HBS 304, Coaching for Results; and HBS 406, Coaching. All of these learning assets contribute to the improved capability and professionalism of the acquisition workforce.

Better Buying Power Initiatives

BBP, BBP 2.0 and BBP 3.0 are part of the Department's overall commitment to reduce costs and increase value to the taxpayer and warfighter. DPAP is working hard to improve all aspects of the costing, pricing, and financing of its contracts. Many of the BBP initiatives are currently in process and are not meant to be one-time events, but a set of continuous learning and improvement approaches. Specific DPAP contributions to support BBP initiatives and contract management include:

On March 4, 2015, the Under Secretary of Defense for Acquisition, Technology, and Logistics (USD (AT&L)) issued a memorandum entitled, "Appropriate Use of Lowest Priced Technically Acceptable Source Selection Process and Associated Contract Type." The memorandum outlines the acquisition circumstances when it is appropriate to use the Lowest Priced Technically Acceptable (LPTA) Source Selection Process. LPTA is appropriate when requirements are well-defined, the risk of unsuccessful performance is minimal, price is a significant factor in the selection and there is neither value, nor need to pay for higher performance. Alternatively, inappropriate usage of LPTA can lead to the Department missing out on an innovative, cost-effective solution needed to maintain our technological advantage. The memo goes on to discuss the importance of selecting the right contract type to fit the requirements, especially when buying services and specifically, professional or management support services, to enhance our mission.

On March 30, 2015, the acting Director of DPAP announced the release of DoD Instruction 5000.72, "DoD Standard for Contracting Officer's Representative Certification," which

established uniform guidance for identification, development, certification and management of Contracting Officer's Representatives (CORs) within the Department.

The Department developed the Contracting Officer Representative Tracking (CORT) tool to track and maintain COR assignments. The web-based tool, hosted on the Wide Area Workflow portal, enables Military Departments and Defense Agencies to manage nomination, training, and tracking of their respective cadres of CORs and the contract(s) assigned to each COR. As of September 2015, there are 59,988 registered CORs. Of the number registered, the Army has 36,048.

On July 27-30, 2015, the Director of Defense Pricing hosted the second Pricing Collaboration event in Southbridge, Massachusetts. Attendees included contracting pricing professionals and Procurement Contracting Officers (PCO's) from the Military Departments and Defense Agencies. Agenda items included: 1) Sessions led by Army, Air Force, and Navy providing FFP-FPIF Component Program Pricing Examples plus Q&A; 2) Incentive Contracting with sessions on FPIF/CPIF/Multiple Incentives, Demonstration of the FPIF Model, and Incentive Contracting Group Exercises concluding with a presentation on Exercise JSF LRIP; 3) Case Study/Critical Thinking Exercise (JSF LRIP); 4) Commercial Item Pricing; 5) DCAA Audit of Contractor Compliance; 6) DCMA Cost and Pricing Center and ICATs; and 7) Senior Procurement Executives Panel.

On July 6, 2015, the Principal Deputy, DPAP signed a memo to the Components announcing the release of the Defense Contingency Contracting Handbook, 5th Edition. The handbook is posted on DPAP's website.

On July 31, 2015, the Director, DPAP signed a memo to the Components entitled "Proper Use of GSA Federal Schedule Contracts – A Reminder." The memorandum highlights two specific aspects of GSA Federal Schedule use that the Department can improve upon: 1) seeking discounts and 2) determining and documenting that the prices obtained are fair and reasonable for all items purchased through the Federal Supply Schedules program, including "open market items."

In addition, the Defense Contract Management Agency (DCMA) continues to establish new and refined capabilities to support BBP initiatives and assist the acquisition workforce in making better business decisions:

Commercial Item Group:

As part of the Under Secretary of Defense's Better Buying Power initiative, DCMA established an initial cadre of commercial pricing experts in early 2015 to assist PCOs in making commercial item determinations and to ensure the price reasonableness of commercial items. Select major program commercial pricing assistance was offered during 2015 with commercial item determination and pricing support provided to: USAF Cryptologic Support Center, USAF Space and Missile Center, Robins Air Force Base (AFB), Tinker AFB, Hill AFB; Redstone Arsenal (Army); NAVAIR and NAVSUP (Navy); and DLA. With a limited staff, the Commercial Item Group identified savings of \$47 million as of September 2015 and demand from PCOs for this specialized support is rapidly increasing. The capability of the Commercial Item Group will continue to grow and mature in 2016 and, when fully staffed, will consist of fifty analysts and engineers dispersed in six strategic geographic locations.

Integrated Cost Analysis Teams (ICATs):

DCMA has ten fully-staffed Integrated Cost Analysis Teams (ICATs) with dedicated business and technical pricing personnel at twelve major contractor divisions. In 2015, the ICATs proactively engaged PCOs during Request for Proposal (RFP) development on major proposals to strategize pricing requirements in partnership with program offices and DCAA. Additionally, the ICATs continue to aggressively pursue opportunities to reduce costs in the supply chain through targeted proposal analysis of second and third tier suppliers, and through coordinated assistance with the DCMA Cost and Pricing Center's mobile/surge pricing capability, commercial pricing cell capability, and augmentation from the Navy Price Fighters.

Overhead Should Cost Reviews and Forward Pricing:

As part of the Department’s Affordability Initiative under BBP 3.0, the Department continued its formalized process of coordinating with Military Department Service Acquisition Executives (SAEs) on the identification of contractor locations for the conduct of overhead should cost reviews. Input is received from each SAE on beneficial contractor segments and expected price proposals of significance for the upcoming fiscal year. Based on this input, the Director of Defense Pricing selects the locations for review, notifies the affected services, and planning is initiated for the joint conduct of the reviews.

FY 2015 was the first year in which DCMA conducted targeted reviews focused on the contractor’s business base and select indirect cost items – areas with the highest potential savings. The business base is a significant factor in predicting overhead rates and thereby establishing a sound “should cost” position. This streamlined approach allowed DCMA to increase the number of scheduled reviews over the prior year.

The results of the reviews are shared with SAEs, affected program/buying offices, and DCMA Administrative Contracting Officers, who utilize the results to establish Forward Pricing Rate Agreements and Recommendations (FPRA/FPRR). These agreements and recommendations support BBP goals to reduce the acquisition cycle time by providing contracting officers with negotiated rates that incorporate affordability initiatives used in pricing contract actions. DCMA is also progressing with its plan to increase the number of locations with FPRAs – working with Defense Contract Audit Agency (DCAA) and industry partners to establish processes and information requirements. This effort has resulted in an increase in the number of FPRAs at some of the largest defense contractors. The DoD Enterprise Contractor Business Analysis Repository (CBAR) includes comprehensive contractor pricing information – to include FPRAs/FPRRs to assist PCOs with contract negotiations.

CBAR supports the Department’s BBP goals of controlling costs and achieving affordability by providing PCOs with real-time information that enables them to negotiate a “better deal” for the Government.

3. IG-Identified Challenge: Joint Warfighting and Readiness

3-1A. Joint Warfighting and Readiness

IG Summary of Challenge

Maintaining the Department’s Joint Warfighting and Readiness abilities is challenged by the fluid, multi-theater environment in which it operates. The Department’s missions include:

- Drawing down DoD presence in Afghanistan while continuing to support the Afghan National Defense Security Forces (ANDSF) and counterterror operations;
- Returning to Iraq to support the battle against the Islamic State with advisors and trainers;
- Strengthening our alliances in the Pacific, as well as in other parts of the world; and
- Addressing emerging terrorism and instability within the U.S. Africa Command areas of operations.

Each of these efforts presents its own challenges that the Department must address. The existing external challenges are compounded by internal challenges relating to the budgetary environment and efforts to optimize the joint warfighting structure.

As the ANDSF formally assumed security responsibilities for all of Afghanistan on January 1, 2015, the U.S. and the Department simultaneously transitioned to Operation Freedom Sentinel (OFS), primarily focused on advising and assisting the ANDSF to further develop its ability to provide security and stability in Afghanistan. The subsequent reduction of U.S. and Coalition Forces in Afghanistan has created significant challenges in the ANDSF advise and assist mission,

to include development of the Planning, Programming, Budgeting and Execution (PPBE) and anti-corruption capabilities in the Ministry of Defense (MoD) and Ministry of Interior (MoI).

Furthermore, the U.S. and Coalition advise and assist mission is challenged by the ANDSF's ongoing issues with:

- Excess officers at senior levels, complicating development of an effective planning and command and control capability;
- Maintenance and logistics planning capabilities;
- Development of counter-improvised explosive device exploitation capabilities;
- Consistent and effective leadership;
- Unity of command; and
- Lack of tactical air support.

The Afghan National Police (ANP) continues to perform traditional policing as well as counterinsurgency operations, but it suffered significant casualties, as has the Afghan National Army (ANA). The ANP still has significant issues concerning force protection, command and control, training, maintenance, medical support, force management, personnel attrition, and corruption.

The drawdown of forces from Afghanistan continues to challenge the Services as they deal with retrograde and reset of equipment. The majority of the returning equipment is in poor condition and has reached the end of its planned service life. Equipment is a critical component of readiness, and returning equipment will require repair or replacement. The retrograde/reset will be complicated by numerous ongoing and developing situations around the world. Global conflict and crises will continue to affect the Department's rebalancing and resetting efforts:

- The limited return of forces to Iraq in constrained roles as advisors and trainers for Operation Inherent Resolve (OIR) to assist in the battle against the Islamic State creates additional challenges for the Department. This effort confirms that U.S. forces need to train for unconventional and asymmetric warfare, as well as for more conventional force-on-force training. Ongoing training and deployment requirements will continue to test both personnel and material readiness.
- The Services are rebalancing to the Asia-Pacific region while maintaining the global presence needed to protect national interests. While undergoing this strategic rebalance, the Department will need to address a wide spectrum of challenges, ranging from increased reliance on uncertain host nation infrastructure to vast areas of operational responsibility. This will require pre-positioning of personnel and equipment and the need for strengthened security partnering with select countries. This effort requires enhanced knowledge of various languages and cultural, ethnic, and religious sensitivities.
- The Department continues to coordinate with the Republic of Korea regarding our strategic alliance. The transfer of the overall combined command from U.S. forces has been scheduled several times, but continues to be delayed.
- The Department also continues to address emerging terrorism and instability challenges in U.S. Africa Command's area of operation, as demonstrated by the Department's involvement in Operation United Assistance. Growth in U.S. Africa Command's operational partnering mission raises the issue of sufficiency of its resources to address the terrorist threat, given that the Department returned some facilities in Europe.

The effects of the reduced Department budget are being felt in areas such as maintenance of existing equipment and systems, fielding and implementation of new systems, and the frequency and extent of training and exercises. The Services and the Combatant Commands must plan for future budget realities in order to minimize the effect on their ability to respond to future threats. The Services must review their existing force structures and make necessary

changes or adjustments, especially when those changes or adjustments involve shifts in how the Department views future military missions.

Sequestration and possible future budget constraints continue to challenge the readiness of the Services. For example, the effect of sequestration was felt almost immediately as the Navy adjusted repair and overhaul schedules for ships and the Air Force began restricting flying hours for squadrons. The Services and the Combatant Commands will need to ensure that any current and future budget reductions do not limit our force's capability to respond to future threats.

During these times of fiscal austerity, particularly the potential to return to Budget Control Act funding levels, finding the proper balance between maintaining readiness, force structure sizing, modernization, and preparing for potential future threats will continue to challenge the Department's leadership.

In addition to external events affecting the Department's joint warfighting and readiness construct, internal factors affect readiness. The proposed drawdown of the Services, with the accompanying potential to close installations and facilities, will again require enhanced attention from the Department's senior leadership. For example, the proposed restructuring of Army aviation forces, a critical combat force multiplier, will be particularly challenging. The Department must continue to assess the capabilities and readiness of the force across the full spectrum of operations. This assessment includes significant issues, such as whether the joint force is capable of achieving the strategic objectives set forth in the *National Security Strategy*, as well as tactical issues, such as the focus on unit and individual service member readiness.

A key objective of maintaining joint warfighting capability and readiness is caring for the all-volunteer force and their families. Difficulty in recruiting sufficient volunteers to meet Service targets and the lifting of gender restrictions within the force will continue to require attention.

Turmoil around the world continues, ranging from Russian aggression in Europe, Chinese maritime actions in the South China Sea, North Korean nuclear threats, externally-initiated cyber-attacks on our government, and the potential health issues that could occur on pandemic levels, among others. It is critical that the Department address these challenges to ensure our military is agile, flexible, and ready for the full range of contingencies.

3-1B. Joint Warfighting and Readiness

IG Assessment of Progress

The Afghan National Army (ANA) made significant leadership changes during this reporting period. In February 2015, to make room for the next generation of Army officers, President Ashraf Ghani directed the retirement of 47 general officers who had exceeded the mandatory retirement age. In addition, he suspended multiple general officers involved in a fuel scandal. The uncertainty over an extended period associated with these leadership changes hampered the Department's advise and assist mission, especially in the area of MoD and MoI development of PPBE capability and accountability. While the U.S. and Coalition generally viewed these actions as a positive step, the ANDSF remains burdened by an excess of officers at senior levels and needs further reduction.

In advance of the 2015 fighting season, the ANDSF continued its high operational tempo and conducted the first major offensive operation of 2015 in northern Helmand Province. This large-scale operation highlighted the ANDSF's ability to organize and execute an operation of this scope, as well as the continuing challenges the ANA faces with maintenance and logistics planning, counter-improvised explosive device (IED) exploitation capabilities, effective leadership, and unity of command. The Coalition intervened to provide tactical air support to compensate for ANDSF's limited capability. The capabilities of the ANP, while improving, face challenges in the same areas as the ANA.

Although the Department is making progress in addressing the drawdown of U.S. forces and equipment in Afghanistan, fiscal challenges will become even more important as current weapon systems reach the end of their serviceable lives and their replacements become more costly.

The Department must ensure adequate oversight and management of equipment being returned or reset so that only unusable equipment is disposed, and new equipment is fielded to the intended users.

Across the globe, the Department continues to develop and enhance partnerships with countries and regions whose interests align with ours.

- The U.S. and Coalition forces conducting OIR’s Build Partner Capacity/Advise and Assist mission in Iraq are progressing, within given limits and constraints. The Iraqi Army today is not the Iraqi Army that the U.S. left in 2011. Issues with assigned/present for duty strength, weak personnel recruiting, poor leadership, bureaucratic inertia, and corruption continue to affect the viability of the Iraqi forces, and the effectiveness of the U.S. and Coalition effort.
- In the Pacific, the Department continues to strengthen alliances and build partner capacity in countries across the region, including the Republic of Korea, the Philippines, Japan, Australia, Malaysia, and Indonesia.
- The Department works to strengthen security institutions across Africa to foster stability, build peacekeeping capacity, and counter transregional extremism. The U.S. military also supports interagency efforts with Latin American and Caribbean states to promote regional stability and counter transnational criminal organizations.

Ongoing efforts to redeploy military units around the globe with the consent and support of partner nations has enabled the Services to better shape and focus their force structure to provide greater flexibility in responding to evolving threats; however, worldwide commitments continue to build. All of these commitments add to an ever increasing challenge for U.S. forces’ ability to deploy to multiple global threat scenarios simultaneously.

Despite the continued high operations tempo, the Department remains committed to ensuring deployed forces around the globe are trained, equipped, and ready to perform their assigned missions. However, deploying capable and ready forces for current operations continues to affect the non-deployed forces’ ability to prepare for full spectrum operations.

3-1C. Joint Warfighting and Readiness	Department Response
--	----------------------------

The Department acknowledges the DoD IG’s assessment.

4. Cyber Security

4-1A. Executing Cyber Security Initiatives	IG Summary of Challenge
---	--------------------------------

In February 2013, then Secretary of Defense Panetta stated, “Cyber is now at a point where the technology is there to cripple a country, to take down our power grid systems, to take down our government systems, take down our financial systems and literally paralyze the country.” Current cyber events occurring both within the Federal government and in the private domain emphasize the reality of the Secretary’s statement. As a result, a conclusion from the 2010 Quadrennial Defense Review (QDR) takes on special meaning. The 2010 QDR concluded, “We must therefore be constantly vigilant and prepared to react nearly instantaneously if we are to effectively limit the damage that the most sophisticated types of [cyber] attacks can inflict.”

While the Department has made strides in developing strategies for opposing cyber threats and adopting new technologies to make its information technology programs more effective and efficient, executing those strategies and implementing those programs remains a significant

challenge. For example, several recent DoD cyber initiatives that lag behind implementation milestones include:

- Transitioning to Internet Protocol version 6 (IPv6);
- Requiring the Defense Federal Acquisition Regulation Supplement (DFARS) clause on safeguarding unclassified DoD information on all relevant contracts;
- Adopting cloud computing; and
- Reducing the number of DoD data centers.

In June 2003, the DoD Chief Information Officer (CIO) issued a memorandum stating the Department's implementation of IPv6 was necessary because the previous internet protocol version had limitations that made it unable to meet long-term commercial and DoD requirements. Over the next five years, the Department issued transition plans, guidance, and requirements outlining the Department's transition to IPv6. In addition, the Office of Management and Budget issued Federal requirements for implementation. However, as of December 2014, the Department had not completed the Federal and DoD requirements and deliverables to effectively migrate the DoD enterprise network to IPv6. As a result, the Department is not realizing potential IPv6 benefits and the longer the Department waits, the higher the cost and the more complex the transition will become.

In June 2011, the Department proposed to amend the DFARS to add a new subpart and associated contract clauses to address requirements for safeguarding unclassified DoD information. The purpose of the DFARS rule was to implement adequate security measures to safeguard unclassified DoD information within contractor information systems from unauthorized access and disclosure. In November 2013, the Department issued the final DFARS rule and established a new DFARS clause. The new clause is mandatory for all DoD prime contracts and subcontracts. The clause imposes two obligations for contractors: safeguarding information systems and reporting the investigation of cyber incidents. However, in February 2015, the Department reported only 65 percent of new contracts included the required DFARS clause.

There are several other DoD cyber initiatives that have similar circumstances as the IPv6 and DFARS initiatives, such as cloud computing and consolidation of data centers. The Department issued cloud computing requirements in 2010 and the strategy in 2012, but has not fully implemented it in 2015. The Department issued requirements for consolidation of data centers in 2012 and still is in the process of completing consolidation.

While it is unrealistic to think the Department can be "prepared to react nearly instantaneously" as the 2010 QDR required, it is not unreasonable to expect that when milestone requirements and guidance are issued for cybersecurity initiatives, they receive high priority for execution and implementation.

4-1B. Executing Cyber Security Initiatives

IG Assessment of Progress

Both the Federal Government and the Department appear to be moving forward to make cybersecurity a higher priority and provide the necessary resources to implement and execute cybersecurity initiatives. In December 2014, the Federal Information Technology Acquisition Reform Act (FITARA) was enacted. FITARA has been described as the most comprehensive overhaul of government IT in 18 years. According to the Federal CIO, one of the most important dimensions of the law is the added authority and responsibility for department-level CIOs. However, he also stated that, "FITARA's success also depends on an agency's ability to overcome cultural challenges that could hinder process improvement and reform efforts." Although not all measures contained in FITARA apply to the Department, it begins to raise the authority of CIOs.

In March 2015, the Department announced its CIO, who had been acting since May 2014, had officially assumed the duties of the CIO position. Along with an extensive background in

DoD information technology and the provisions of FITARA, the Department’s new CIO brings an added sense of urgency in implementing cybersecurity initiatives within DoD components.

The Department must continue challenging all military, civilian, and contractor employees to execute cybersecurity initiatives successfully and quickly implement cyber programs as instructed to counter all threats in the Cyber domain.

4-1C. Executing Cyber Security Initiatives

Department Response

The Department acknowledges the DoD IG’s assessment.

4-2A. Cyber Mission Force

IG Summary of Challenge

Cyberspace is an inherently global domain that affects nearly every function of the DoD Joint Force. The Department is increasingly dependent upon a skilled cyber force with appropriate cyber capabilities to conduct modern military operations. In 2012, the Commander, U.S. Cyber Command recommended, and the Secretary of Defense approved, the Cyber Force model. The Cyber Force model includes developing a Service Component-built Cyber Mission Force to support U.S. Cyber Command mission. Today, the pace of threats continues to grow in scope, intensity, and sophistication. Every conflict in the world today has a cyber dimension. Actors with modest conventional military capabilities have shown considerable capacity to harass, disrupt, and distract their adversaries using cyberspace. Recent attacks, such as the breach of Office of Personnel Management systems and the hacking of Sony Pictures Entertainment, demonstrate that no industry or sector is immune to this growing threat.

According to the National Initiative for Cyber Security Education, a highly skilled cybersecurity force is required to secure, protect, and defend our nation’s information systems, networks, and infrastructure. However, the Center for Strategic and International Studies report, “A Human Capital Crisis in Cybersecurity,” April 2010, identified a national shortage of skilled cyberspace personnel. The 2015 Government Accountability Office High Risk Series identifies continuing concerns regarding mission-critical gaps in cybersecurity professionals and safeguarding federal computer systems and the systems that support critical infrastructure. These gaps pose a threat to the nation and to the Department’s operational readiness.

In the current environment of economic uncertainty and fiscal constraint, the Department faces significant challenges in staffing and training the cyber personnel it needs for the Cyber Mission Force. Additionally, the Department faces further challenges related to building, commanding and controlling, and equipping the Cyber Mission Force.

4-2B. Cyber Mission Force

IG Assessment of Progress

The Commander, U.S. Cyber Command noted the Department’s progress during his March 4, 2015 testimony before the House Armed Services, Subcommittee on Emerging Threats and Capabilities, but also acknowledged the Department had a long road ahead in implementing the Cyber Mission Force. Two years into the Cyber Mission Force build, the Service Components field approximately 71 of the 133 teams planned. Some fielded teams are fully operational and performing offensive and defensive missions, while other teams are still filling out manning rosters and completing training and certifications

One of the DoD IG’s top priorities is cybersecurity and cyberspace operations. DoD IG will continue to assess issues affecting the Cyber Mission Force and U.S. Cyber Command’s ability to meet mission requirements. In 2015, the DoD IG issued a classified report concluding that the Service Components have been unable to effectively staff qualified Cyber Mission Force

teams based on U.S. Cyber Command aggressive fielding schedules. Additionally, the DoD IG issued another classified report concluding, among other issues, that select Combatant Commands did not and other Combatant Commands may not have sufficient resources to staff their joint cyber centers, and U.S. Cyber Command was not providing sufficient forward-deployed support to the combatant commands. These elements are a critical component affecting DoD command and control decisions. The DoD IG is in the process of determining the adequacy of Cyber Mission Force teams' facilities, equipment, tools, and capabilities.

Although U.S. Cyber Command, Service Components, the Defense Information Systems Agency, and Combatant Commands were making progress in building and operationalizing the Cyber Mission Force, recent audits show further time-sensitive actions are still needed to staff and train the Cyber Mission Force to effectively meet mission requirements. The Deputy Secretary of Defense directed actions in the Resource Management Decisions for the FY 2016 Budget Request to better influence how the Department continues to build the Cyber Mission Force and meet other cyberspace-related tasks affecting the Joint Force. These actions demonstrate the Department's commitment to building a fully staffed and qualified Cyber Mission Force.

4-2C. Cyber Mission Force

Department Response

The Department acknowledges the DoD IG's assessment.

5. Health Care

5-1A. Health Care Cost

IG Summary of Challenge

The Military Health System (MHS) must provide quality care for 9.6 million beneficiaries within fiscal constraints while facing increased user demand, legislative imperatives, and inflation. These factors make cost control difficult in the public and private sectors. Over the last decade, health care costs have grown substantially, and MHS costs have been no exception. The DoD FY 2014 appropriations for health care were \$32.7 billion, which is an increase of about 80 percent since FY 2005. Appropriations have almost tripled since the FY 2001 appropriation of \$12.1 billion. However, the Department's appropriations have decreased slightly by \$16 million from FY 2013. Health care fraud is another challenge in containing health care costs. Health care fraud is among the top five categories of criminal investigations of the DoD IG's Defense Criminal Investigative Service (DCIS). Specifically, as of March 31, 2015, DCIS had 297 health care cases, representing 18 percent of the 1,637 open cases.

As the MHS continues to adapt to budgetary and force transformation constraints, the Department must continue to provide timely access to quality medical care per established policies and timelines and maintain the medical readiness of the force. The Department reports that growing health care costs will limit its ability to fund medical readiness requirements. These challenges include public health, suicide prevention, mental health screening and treatment, access to care, pre- and post-deployment health care, medication management, and Reserve Component health care. The Department continues to enable the recovery and transition of wounded, ill, and injured service members by using Wounded Warriors programs and the Integrated Disability Evaluation System. Due to the drawdown in Afghanistan and the introduction of Operation Inherent Resolve, the Military Services will be challenged with "rightsizing" their medical transition programs.

Ensuring Military Service members, their families, and all other eligible beneficiaries receive the care they need and deserve while controlling costs continues to be a challenge. The MHS is focusing on multiple areas to manage health care costs per capita, including contracting for managed-care support that provide incentives for customer satisfaction and fosters contractors as partners in support of medical readiness. The Department continues to examine how the MHS purchases health care from the private sector.

The Department identified areas that assist in managing costs, including the use of the TRICARE Mail Order Pharmacy program. The DoD IG reported in July 2013 that the TRICARE Mail Order Pharmacy Program was more cost efficient than the retail program due to the difference in the cost of the pharmaceuticals. The Defense Health Agency Pharmacy Operations Directorate implemented an aggressive communication plan to encourage the increased use of receiving prescription drugs through the mail to reduce costs.

The Defense Health Agency, Office of Program Integrity, conducts anti-fraud activities to protect benefit dollars and safeguard beneficiaries. To encourage the early identification of fraud, the Office of Program Integrity is proactive in detecting areas that may be vulnerable to fraudulent and abusive billings. In addition, the Office of Program Integrity renewed its Memorandum of Understanding with DCIS to provide investigative support. The Defense Health Agency reported that during calendar year 2014, the Office of Program Integrity managed 354 active investigations, opened 229 new cases, responded to 430 Qui Tams from the Department of Justice, and responded to 951 leads or requests for assistance. The Defense Health Agency also reported that the Office of Program Integrity also coordinated investigative activities with Military Criminal Investigative Offices, as well as other federal, state, and local agencies.

The Department continues to struggle to contain costs in TRICARE programs. The Pharmacy Program has seen a dramatic rise in the receipt and payment of compound drug prescriptions. From October 2014 to March 2015, payments for compound drugs have increased from \$84 million to \$330 million, or 300 percent over the six-month period. In May 2015, the Defense Health Agency implemented new controls to attempt to curb the costs of these drugs; however, these controls are not as aggressive as other federal agency and insurance company controls. The Defense Health Agency officials believe that more aggressive controls are necessary. The DoD IG initiated an audit in FY 2015 to review controls over compound drugs.

The DoD IG reported in November 2014 that the Defense Health Agency did not have adequate controls to detect improper payments for TRICARE claims submitted by skilled nursing facilities in the North region. The audit determined that 67.4 percent of FY 2013 skilled nursing facilities claims in the TRICARE North region (valued at \$13.2 million) had insufficient documentation to support the claims submitted by the skilled nursing facilities. In response to the report, a Defense Health Agency official stated that the agency would increase reviews of skilled nursing claims.

DoD IG also reported in April 2014 that the Defense Health Agency and its overseas contractor officials did not negotiate rates in any of the 163 overseas locations, which represented \$238 million in health care payments in FY 2012. In six high-dollar locations without negotiated rates or other cost containment measures, TRICARE payments increased from \$21.1 million in FY 2009 to \$63.8 million in FY 2012, or about 203 percent. The Department did not agree to implement cost containment measures for these locations, but did agree to implement cost containment measures, similar to rates established by the Centers for Medicare and Medicaid Services, in the U.S. territories.

In addition to controlling health care costs, the Department could improve collections for services provided at military treatment facilities. The DoD IG issued three reports from August 2014 through June 2015, which concluded that military treatment facilities did not actively pursue collections from non-DoD beneficiaries for 59 accounts valued at \$9.6 million of the 75 accounts the DoD IG reviewed. Also, the military treatment facilities did not appropriately

transfer funds to the U.S. Treasury for 71 delinquent accounts valued at \$11.3 million of the 75 accounts the DoD IG reviewed for collection.

The MHS Quadruple Aim Concept focuses on four factors in providing quality health care to DoD beneficiaries: readiness, better health, better care, and lower cost. In March 2015, the MHS approved the following strategic focus areas for improvement: increase direct care primary care capacity, improve access, improve quality outcomes for condition-based care, and reduce patient harm. Continuing to implement the MHS Quadruple Aim Concept and concentrating on these focus areas should improve quality and reduce costs by focusing on improved care coordination and delivering care in the appropriate setting.

5-1C. Health Care Cost

Department Response

In 2009, the Department projected that by FY 2016 the Defense Health Program (DHP) funding requirement would be around \$70 billion. The Department's actual FY 2016 DHP budget request was just under \$48 billion, over \$22 billion less than previously projected. This reduction was due to a combination of factors, including historically low inflation, a declining beneficiary population, and specific initiatives taken in the Military Health System (MHS) to target rising costs. Despite our recent successes in containing costs, FY 2015 has been a challenge for the MHS. Exploitation of the pharmacy benefit for compound pharmaceuticals contributed to an estimated \$1.5 billion shortfall in DHP funding, and we are seeing a gradual rise in medical inflation. The MHS continues to take aggressive action to increase efficiency, combat fraud, and reduce costs. Following are examples:

Compound Pharmacy – In May 2015, the MHS implemented aggressive screening processes for compound pharmaceuticals. This reduced the monthly (including Medicare Eligible Health Care Retirement Fund, MERHCF) compound costs from a high of \$545 million in April to a current average of about \$10 million per month. Average claim cost was also reduced from a high of over \$6,000 to around \$300. MHS is also aggressively pursuing compound pharmacies and compound prescribers that appear to be engaged in fraudulent and abusive activities. The Defense Health Agency (DHA) Program Integrity (PI) office, along with Defense Criminal Investigative Service (DCIS) and Department of Justice (DOJ), has opened 140 compounding fraud investigations.

Enhanced Mail/MTF Pharmacy Initiative – Starting October 1, 2015, most beneficiaries in the United States will be required to refill brand name maintenance drugs through TRICARE Pharmacy Home Delivery or at a military pharmacy or pay full price. This is an expansion of the TRICARE for Life Pilot. The Department estimates this will save \$88 million per year.

Improper Payments to Skilled Nursing Facilities – On June 1, 2010, we began preauthorizing skilled nursing facility care for TRICARE dual eligible beneficiaries when we became primary payer on day 101 when Medicare benefits exhausted.

TRICARE Overseas Cost Containment – In the TRICARE Overseas follow-on contract, we require the contractor to evaluate the feasibility of implementing fee schedules in Bahrain, South Korea, Turkey, Japan, and the United Kingdom. The contract deliverable is due in December 1, 2016.

Improvements to Third Party Collections – The Military Health System is in the process of deploying a commercial-grade business system to improve our capabilities in billing third party payers. The Armed Forces Billing and Collection Utilization Solution (ABACUS) is expected to be fully deployed and operational by the first quarter of FY 2016, if not sooner. We have also contracted with a commercial firm to assist us in better identifying beneficiaries who have additional health insurance.

6. Training and Equipping Afghan, Iraqi, and New Syrian Security Forces

6-1A. Afghan National Defense and Security Forces

IG Summary of Challenge

The Department will continue to develop the Afghan National Defense Security Force's (ANDSF) capability to take ultimate responsibility for Afghanistan's security. Challenges include:

- Developing ministerial capability to plan and manage resources and human capital;
- Ensuring enabling-force capabilities (combat readiness and sustainment support elements) are fielded prior to withdrawal of Coalition capabilities;
- Measuring and reporting ANDSF operational readiness and effectiveness;
- Professionalizing the ANDSF;
- Ensuring the ANDSF logistical system can support an independent and sustainable security force; and
- Preparing for post-2016 operations.

Coalition force drawdown and retrograde have added significant challenges as ANDSF completes the transition to full Afghan government responsibility for security. The protracted 2014 Afghan election caused setbacks for the U.S. and Coalition Train, Advise, and Assist (TAA) mission. Last year's political impasse delayed the finalization of the Bilateral Support Agreement (BSA) and Status of Forces Agreement (SOFA), causing many Allies and operational partners to delay fulfilling their Resolute Support (RS) force commitments until a newly-elected government was in place, the bilateral and international agreements were signed, and the United States announced its own force commitments. The international community's uncertainty, coupled with setbacks in forming a new government cabinet, created a period of comparative stagnation in ANDSF development, with some Afghan leaders hesitant to make necessary decisions. This political uncertainty threatened to undermine the progress made by the ANDSF in the security domain. Economic growth was similarly stymied by a lack of investor confidence in the Afghan government and its prospects for the future.

At the same time, President Ghani and Chief Executive Abdullah committed to putting their country's interests above all else when they formed the national unity government. Encouragingly, both leaders have proven to be amenable to cooperation with the international community, presenting an opportunity for the United States to deepen its partnership with Afghanistan. Both leaders are supportive of women's rights and their empowerment in Afghan society, and both are committed to addressing the challenge of corruption, as demonstrated by their strong reaction to the discovery of irregularities regarding the proper award and execution of fuel contracts within the Ministry of Defense (MoD). However, after almost a year in power, the Afghan government remains in a state of flux as President Ghani and Chief Executive Abdullah determine how to distribute power and responsibilities, while key reform initiatives have been slow to be implemented.

The unity government faces many challenges both internally and externally. The forward momentum of the RS campaign was stymied by delays in forming the full new 25-member Afghan cabinet. After months of delays, the first round of negotiated candidates was finally announced on January 12, 2015, and Parliament rejected more than half of those originally proposed, including the nominee for MoD. By April 18, 2015, Parliament had approved 24 members of the cabinet; however, President Ghani and Chief Executive Abdullah continued to negotiate a new candidate for MoD as the 2015 fighting season began. On May 21, 2015, President Ghani nominated Mohammad Masoom Stanekzai to be the MoD, but the Afghan Parliament has yet to confirm the appointment. The delayed appointment has had a negative effect on the ability of the Afghan security ministries to effectively support the ANDSF.

Security Ministries. At the security ministries, RS advisors are focusing on assisting the Afghans in building systems and processes critical to enabling the ministries to support the ANDSF. These efforts have been ongoing for several years but were a secondary focus when the International Security Assistance Force (ISAF) was conducting combat operations; now it is the main effort. Moreover, the delay in confirming a new Minister of Defense, and the suspension of a number of senior officials over MoD fuel contract irregularities, have slowed capacity building efforts over the last year within the MoD.

Although some progress was made during this reporting period, gaps in the Afghan security ministries' ability to perform key functions such as fiscal planning, programming, budgeting and procurement, and human resource management will likely persist for some time, and could impede sustainment of its forces. The most critical gaps in Afghan security institution capacity are the lack of effective systems and repeatable processes to develop defense requirements properly, procure goods and services, and manage budget execution.

The Department must continue its focus on advising and assisting the development of the resource management capabilities of the Ministry of Interior (MoI) and MoD. Budget planning and execution, training and development of human resources, increasing the ranks of civilian professionals, and leader emphasis on command and control of logistics are key areas for continued emphasis. Ensuring the capacity of the ANDSF and U.S./NATO command to maintain accountability and control over direct funding and equipment provided via the U.S. Afghan Security Forces Fund remains a key challenge. Additionally, coordination between the Afghan National Army (ANA), Afghan National Police (ANP), Afghan Air Force (AAF), and Special Operations Forces will be important to ensuring a multi-layered, long-term defense against insurgents and criminal syndicates.

Enabling Force Capabilities. The 2015 fighting season is the first in which the ANDSF have battled insurgents without the full support of U.S. and coalition combat forces, and with very limited coalition air and Intelligence, Surveillance and Reconnaissance (ISR) enablers. Completing the fielding of "enablers," or military capabilities essential to building ANDSF's capacity to accomplish its missions, is increasingly important. Fielding and integration of combat and support capabilities in the ANA and ANP will remain a priority.

Overall, the ANDSF's most critical gaps remain in aviation, intelligence, and special operations, all linked to the ANDSF's targeting capability. These gaps will endure for some time, even with the addition of key enablers. RS advisors are also working to address developmental shortfalls in the areas of logistics, medical support, and counter-IED exploitation. In general, the ANDSF are better trained and equipped than insurgent forces, and continue to demonstrate tactical proficiency as they work together across security pillars. When the ANA and ANP collaborate, they have proven that they can defeat the insurgents when challenged.

Maximizing the ability to employ, sustain, and maintain critical equipment, coupled with the identification and promotion of capable leaders, is a near-term focus for Afghan and coalition leadership to maximize ANDSF effectiveness in the 2016 fighting season and beyond. Higher operational rates and challenges, including the likelihood of high ANDSF casualties and attrition, logistics sustainment and maintenance issues, and the ANP's inability to "hold" cleared areas after the ANA offensives will continue to detract from ANDSF operational effectiveness.

Logistics remains a challenge for the ANDSF that has been exacerbated by a diminished Coalition presence in the field. Since U.S. and Coalition forces historically have ordered supplies for the ANDSF, Afghan personnel have little experience doing it themselves. Efforts are focusing on improving the Afghan MOD and MOI's ability to identify requirements. One of these efforts involves development of an upgrade to CORE IMS - the Afghan's primary logistics automation system - that will assist in projecting requirements based on actual usage. Other efforts have focused on cataloging, parts manuals, and logistics training. It is important that, with advisor support, logistics responsibilities and decision making be transitioned to the Afghans. In many cases, reported shortages in operational units typically result from the ANDSF's underdeveloped logistics system rather than actual system-wide supply shortages. Coalition officials are working Afghan security leaders to address essential logistics functions, but progress is incremental.

Additionally, the Afghan ministries' procurement systems have not yet matured in terms of efficiency and internal controls. The fuel scandal in January 2015 brought almost all ANDSF procurement to a temporary halt. This does not, however, affect the buying of military equipment and parts, which DoD procures through the Foreign Military Sales System, using money from the Afghan National Security Forces Fund. The Afghans' procurement system has been limited to fuel, fuel, firewood, facility maintenance, and other locally produced supplies. The Afghans are being taught to effectively use the US Foreign Military Sales System to obtain needed equipment and supplies. The primary means of supporting the ANDSF has always been through the US Foreign Military Sales system. As we transition to a normalized security cooperation relationship with Afghanistan, expectation is that the Afghans will continue to use the US Foreign Military Sales system as one of the primary means of obtaining needed equipment and supplies. It is particularly critical that we expedite the development of the Afghan capability to take ownership of the development of requirements needed to support executable Foreign Military Sales cases.

Assessment of ANDSF Progress. Assessing capabilities and identifying capability gaps will become more difficult during Coalition force withdrawal. The Department's ability to determine the operational readiness and effectiveness of ANSF units is diminishing as the number of partner units and advisors continue to decrease. The challenge is to ensure sufficient skilled and qualified advisors are in key positions to continue assessing and developing ANSF leadership, command and control, logistics, and accountability capabilities, and critical units.

Professionalization. The Department must continue to support ANDSF's current efforts to professionalize the force. Command reports show recruitment and management of initial training at the enlisted and officer levels are becoming ANDSF strengths. Developing quality leadership, managing effective training at all army and police levels, providing career development opportunities, and maintaining accurate personnel and pay records have all been identified as areas requiring a sustained effort necessary to build a professional army and police force.

Post-2016 Operations. The President recently announced plans to maintain the current force of 9800 uniformed personnel, plus civilian and contract staff, in Afghanistan through 2016 and part of 2017, drawing down to 5500 uniformed personnel, plus civilian and contractors, in 2017. Subsequently, a new Defense Security Cooperation Management Office (DSCMO) office is expected to be established using DoD funding authority vice the more traditional funding authority from the Department of State. Its function will be to plan, develop and execute a mission to replace Operation Freedom's Sentinel to oversee Afghan Security Forces Fund expenditures, and continue to build long-term Afghan capacity through 2024. Organizing the DSCMO will require careful advance planning within the Department, other agencies, and especially with the Department of State and U.S. Mission Kabul to accomplish this new mission with substantially fewer military forces. The Department especially will need to ensure the DCSMO is staffed appropriately with the advisory skill sets necessary to assist the ANDSF further develop its still lagging operational and institutional capabilities.

6-1B. Afghan National Defense and Security Forces

IG Assessment of Progress

The Coalition is monitoring the performance of ANDSF in the first fighting season against stiff Taliban resistance without the support of a Coalition combat presence in Afghanistan. The Coalition emphasis on ANDSF development has shifted from building its forces to assisting the Afghans in professionalizing and ensuring systems are developed and in place to manage fiscal, personnel, and equipment resources accountably and sustainably.

Ministerial development is a primary emphasis, and the Coalition is increasing resource management training for MoD and MoI personnel. Ministerial advisors are delivering assessments of the security ministry departments, reporting departmental setbacks as well as successes, and planning and revising training milestones and objectives as necessary. Additional

advisors are arriving to complement the ministerial and general staff advisory capacity and to accelerate progress.

The shortage of qualified army and police volunteers with sufficient education remains a challenge for ANDSF, especially as its casualty rate has increased over the past year. Nevertheless, ANDSF continues to support human capital development and training, including for literacy.

The ANDSF has taken more responsibility for its own training. Coalition reports confirm that the number of Afghan trainers has increased steadily over time, easing the burden on the Coalition Forces to provide military and civilian trainers. Reportedly, ANDSF is also managing its non-commissioned officer (NCO) and officer ranks more aggressively, for example, by taking action to meet ANP and ANA non-commissioned officer shortages by training and promoting qualified and experienced enlisted soldiers and junior NCOs.

Importantly, operational readiness and effectiveness, and self-reliance, of the ANA and ANP continue to show overall improvement. However, with the decrease in advisor teams and advisor resources at the Corps and Police Headquarters levels and below, Coalition forces have had to shift to using Afghan reporting to understand ANDSF capabilities. Challenges remain in getting reliable data from the ANDSF self-assessment tool.

Continued financial support from the international community depends upon a transparent and accountable Afghan resource management process that enables oversight by third party organizations. Resolute Support priorities include developing an advisor network to encourage leaders of the Afghan security ministries to embrace transparent and accountable processes while providing effective oversight. The absence of effective internal control processes increases the risk of poor management and the existence of corrupt practices, depriving the ANDSF of vital resources and could lead to reduction in international contributions over time. DoD has deployed a team to Afghanistan to assist the Afghans in improving the current MOD and MOI payroll systems and improve funds accountability.

In April 2015, the acting Minister of Defense signed the Ministerial Internal Controls Program (MICP) (as well as an anti-corruption policy) to address this shortfall, and it is being implemented within the MoD. RS advisors assisted with developing MICP guidelines, which is leading to introduction of process maps, auditing plans, and the development of effective and sustainable control processes for items such as fuel, ammunition, salaries, and food. The new MoD Inspector General (IG), as well as the ANA General Staff IG, accepted responsibility and leadership for the implementation of MICP and adopted a leadership role in the transparency, accountability, and oversight forums, such as the Counter Corruption Working Group and the Senior High Commission Anti-Corruption Council. In addition, the Combined Security Transition Command is pressing forward on finding savings in Afghan Security Force Funds that could be used to bolster fiscal resources needed for now to sustain the ANDSF at its current level of 352,000 army and police personnel.

6-1C. Afghan National Defense and Security Forces	Department Response
The Department acknowledges the DoD IG's assessment.	
6-2A. Iraqi and New Syrian Security Forces	IG Summary of Challenge
At the direction of the President, the United States is pursuing a strategy to degrade and ultimately defeat the Islamic State of Iraq and the Levant (ISIL). In September 2014, the President articulated an approach to accomplish this strategy that involves nine separate lines	

of effort: supporting effective governance in Iraq, denying ISIL safe haven, building partner capacity, enhancing intelligence collection against ISIL, disrupting ISIL's finances, exposing ISIL's true nature, disrupting the flow of foreign fighters, protecting the Homeland, and providing humanitarian support. The Department has responsibility for two lines of effort: denying safe haven and building partner capacity.

To support these two lines of effort, the Department has committed to the development of the Iraqi Army and the New Syrian Forces to fight ISIL. However, the onslaught of the ISIL advance reduced the Iraqi Army to 10 of its former 14 Divisions. While the Government of Iraq (GoI) is recruiting and training new personnel, it lacks the rapid ability to professionally train and equip the forces required to conduct counter-offensive operations, and it needs U.S. and Coalition assistance. While the trend on the battlefield has been promising in stemming ISIL gains, ISIL remains a potent force. The GoI currently lacks the military capacity to field sufficient and effective forces needed to regain much of the lost territory, protect the population and threatened critical infrastructure, and drive ISIL out of the country.

To successfully conduct counter-offensive operations with Coalition support, the GoI has initially committed to training, equipping, and fielding three Iraqi Army Divisions (nine Brigades), three Kurdish Brigades, and Tribal Forces, which could comprise eventual Iraqi National Guard brigades. The focus of DoD efforts is to work with, by, and through the GoI to build the necessary military capability to counter ISIL. The Department requested and received approximately \$1.6 billion to provide assistance to military and other security forces of, or associated with, the GoI, including Kurdish and tribal security forces.

While initial plans called for spending \$500 million to train Moderate Syrian Opposition fighters to become part of the New Syrian Force, the program has recently been suspended pending further evaluation and consideration of options.

6-2B. Iraqi and New Syrian Security Forces

IG Assessment of Progress

While U.S./Coalition Forces are pursuing this train, advise, and assist mission with selected Iraqi Army and Tribal Forces, the overall condition of the Iraqi Army, coupled with weak personnel recruiting, poor leadership, bureaucratic inertia, and corruption, present challenges to building an effective GoI security force capable of carrying out the mission to defeat ISIL in Iraq.

The Department recently suspended the New Syrian Forces (NSF) training program, after having trained a very small number of personnel. One particular challenge was the rigorous vetting process required by various aspects of U.S. law, which limited the number of eligible recruits.

6-2C. Iraqi and New Syrian Security Forces

Department Response

The Department acknowledges the DoD IG's assessment.

7. The Nuclear Enterprise

7-1A. Managing the Risks between Sustainment, Modernization, and Strategic Force Reduction

IG Summary of Challenge

The President is committed to maintaining safe, secure, and effective nuclear forces while reducing the strategic nuclear forces in accordance with the New Strategic Arms Reduction (START) Treaty. The Department must balance the sustainment of legacy systems and the reduction of strategic forces while continuing investments to modernize essential nuclear delivery systems; warning, command, and control; and in collaboration with the Department of Energy, nuclear weapons and supporting infrastructure. Survivability, reliability, accountability, and production infrastructures become critically important with the reduction of overall numbers of nuclear weapons and delivery platforms.

7-1B. Managing the Risks between Sustainment, Modernization, and Strategic Force Reduction

IG Assessment of Progress

The Department's efforts in managing the risks between sustainment, modernization, and strategic force reduction will continue to be a challenge. Sustainment of legacy systems is one of the most pervasive problems in the nuclear enterprise. The Department must focus on sustainment challenges. If not addressed, sustainment challenges will overtake any improvements or enhancements the Department intends to make in the near term.

Significant uncertainties exist in today's threat environment. U.S. deterrence and assurance strategies must be adaptable to counter unpredictable strategic and regional threats. New platforms must be adaptable to deter emerging threats well into the future. For example, Ohio-class replacement ballistic missile submarines are scheduled to be deployed until the 2080s. However, fragmented leadership and advocacy has hindered the Department's ability to synthesize efforts to ensure the arrival at an adaptable force after strategic reductions.

Aging infrastructure and the constraints of the Budget Control Act put both the legacy system and the replacement program at risk. Additionally, senior Air Force leaders accepted the risk of not meeting national security requirements without the knowledge of Combatant Commands or the Joint Chiefs of Staff.

The lack of Service focus on aging infrastructure and risk management without the knowledge of DoD senior leadership is a trend throughout most of the DoD IG's recent nuclear enterprise reports.

7-1C. Managing the Risks between Sustainment, Modernization, and Strategic Force Reduction

Department Response

Ensuring a safe, secure, and effective nuclear enterprise is the top priority of the Department, and the Department is committed to aggressively managing the risks between sustainment and modernization of the nation's nuclear forces.

The constraints of the Budget Control Act place many DoD programs at risk, not just nuclear force programs such as Minuteman III. The Air Force has defined Ground Based Strategic Deterrent (GBSD) as the replacement to MM III and is proceeding towards Milestone A in FY

2016. The President's FY 2016 budget request includes a new GBSD Program Element with resources to continue work on guidance, propulsion, and weapon system integration. The Air Force is also preparing for launch system, command and control, and flight systems Technology Maturation and Risk Reduction activities (after Milestone A) with resources identified in FY 2017-2020, to include continuing funding beyond the Future Years Defense Program (FYDP). For the legacy Minuteman III system, the FY 2016 budget request includes investments to sustain the weapon system, with additional funding projected to ensure Minuteman III remains effective through GBSD fielding.

As part of DoD's Program and Budget Review process, senior leadership throughout the Department, to include the Air Force, jointly assesses risks for national defense requirements. The DoD oversight process remains keenly focused on nuclear enterprise risks at the Service, Combatant Command, Joint Chiefs of Staff, and Secretary of Defense levels. In addition, the President's FY 2016 budget request includes an additional \$8 billion across the FYDP, compared to the FY 2015 budget, for sustainment and modernization of all nuclear forces.

The Secretary of Defense, as specified in Section 1043 of the National Defense Authorization Act for Fiscal Year 2012, annually reports to Congress sustainment issues and modernization plans for the nuclear weapons stockpile, nuclear weapons complex, nuclear weapons delivery systems, and nuclear weapons command and control systems.

7-2A. Modernizing Our Nuclear Forces to Meet Future National Security Needs

IG Summary of Challenge

The United States' nuclear deterrent is an amalgamation of terrestrial, aerial, and space-based sensors; assured command and control, the triad of delivery systems, nuclear weapons and supporting infrastructure; and most importantly, trained and dedicated people. The triad of delivery systems was modernized twice -- once in the early 1960s and once in the 1980s. The average warhead today is over 27 years old. Every one of the systems, including the various elements of the Nuclear Command, Control, and Communications (NC3) system, will require significant modernization or replacement in the next two decades.

7-2B. Modernizing Our Nuclear Forces to Meet Future National Security Needs

IG Assessment of Progress

Although the Department is far from attaining an acceptable level of risk in the nuclear enterprise, it has made progress. The DoD senior leadership has increased the emphasis on achieving this goal.

The President's FY 2016 budget begins to reduce the accumulated risk because of deferred maintenance and sustainment, but there is little to no margin for error. The Department must balance the sustainment of legacy systems with modernization to ensure national security capabilities are met. Even though the President's budget requests \$142 billion to recapitalize, sustain, and modernize the nuclear enterprise over the next five years, the Department must ensure consistent focus to align acquisition schedules for new platforms and their associated weapons.

Long Range Strike Bomber (LRS-B): The LRS-B is funded and in the acquisition cycle. However, the Senate Armed Service Committee recently removed \$460 million from the program. The Air Force still has not committed to ensuring the first bomber variant will be nuclear capable, which could lead to additional investment to sustain the aging dual-capable B-52 and B-2 bombers.

Ohio Class Submarine Replacement: The current Ohio class of ballistic missile submarines (SSBN) were commissioned between 1984 and 1997, and their lifetime has been extended from 30 to 42 years -- unprecedented for a nuclear submarine. No further extension is possible and maintaining operational availability is a concern. Even though the first Ohio replacement will begin its first strategic patrol in 2031, the current SSBNs must be sustained until the last hull is decommissioned in 2040.

National Airborne Operations Center (NAOC) E-4B: Aircraft availability has not met mission needs over the last three and a half years. The cost to sustain the airframe will continually increase as commercial airlines continue to retire the 747-200 fleet and spare parts are depleted. Age-related maintenance issues have led to extended depot periods and a replacement program has yet to be identified.

Integrated Tactical Warning and Attack Assessment (ITW/AA): The ITW/AA enterprise's mission is to provide timely, accurate, and unambiguous warning of air, missile, and space attacks against North America to the U.S. President, the Prime Minister of Canada, and the Chairman of the Joint Chiefs of Staff, Combatant Commands, and other forward users. The ITW/AA is composed of Air and Space Missile Warning Missions, with sensors and forward users located worldwide, and at correlation centers at Peterson AFB, Cheyenne Mountain AFS, Offutt AFB, and Vandenberg AFB. Portions of this legacy system are unsustainable, and plans for replacement systems have been delayed.

Minuteman III/Ground Based Strategic Deterrent: The National Defense Authorization Act of 2007 directed the Air Force to sustain the Minuteman III (MMIII) ICBM until 2030. Even though the MMIII has received several generations of sustainment and modernization, the supporting infrastructure is aging to the point of becoming unsustainable. The Air Force must balance investment between the legacy system and the new GBSD, follow-on to the MMIII.

Air Launched Cruise Missile/Long Range Stand-Off (ALCM/LRSO): The LRSO effort will develop a weapon system to replace the Air Force's ALCM, operational since 1986. However, an independent cost estimate depicted higher LRSO development and integration costs than the original Resource Management Decision funding. The FY 2015 Presidential Budget Request included a decision to defer the program three years, resulting in a four-year delay due to unexecutable funds and programmatic issues.

Nuclear Command, Control, and Communications (NC3): The NC3 system is a large and complex system-of-systems comprised of numerous land, airborne, and space-based components used to assure connectivity between the President and nuclear forces. The NC3 system remains a primary concern for Congress. The National Defense Authorization Act of 2014 directed the establishment of the Council on Oversight of the National Leadership Command, Control, and Communications System. The Council is responsible for oversight of the command, control, and communications system for the national leadership of the United States. Specific responsibilities include oversight of performance assessments (including interoperability), vulnerability identification and mitigation, architecture development, and resource prioritization. However, most systems are controlled by separate entities to include different program offices, program element offices, and even different Major Commands.

7-2C. Modernizing Our Nuclear Forces to Meet Future National Security Needs

Department Response

Ensuring a safe, secure, and effective nuclear enterprise remains the top priority of the Department, and the Department remains firmly committed to modernization. The President's FY 2016 budget request includes an additional \$8 billion across the FYDP, compared to the FY 2015 budget, for sustainment and modernization of all nuclear forces.

The Air Force has defined Ground Based Strategic Deterrent (GBSD) as the replacement to MM III and is proceeding towards Milestone A in FY 2016. The President's FY 2016 budget

request includes a new GBSD Program Element with resources to continue work on guidance, propulsion, and weapon system integration. The Air Force is also preparing for launch system, command and control, and flight systems Technology Maturation and Risk Reduction activities (after Milestone A) with resources identified in FY 2017-2020, to include continuing funding beyond the FYDP. For the legacy Minuteman III system, the FY 2016 budget request includes investments to sustain the weapon system, with additional funding projected to ensure Minuteman III remains effective through GBSD fielding.

The FY 2016 budget request recovers two years of the three-year Long Range Standoff (LRSO) cruise missile deferral from the 2015 budget. In addition, the Air Force is planning for Milestone-A acquisition decisions for both GBSD and LRSO in FY 2016, which will include development of Independent Cost Estimates.

Due to delays in awarding the LRS-B contract, the Senate Armed Services Committee removed \$460 million from the program in FY 2016 in order to properly phase funding with program execution. The LRS-B is being built with features and components necessary for the nuclear mission to ensure the nuclear certification effort completes within two years after conventional initial operational capability in accordance with the FY 2013 National Defense Authorization Act. The LRS-B requirements for the nuclear mission have been validated by the Joint Requirements Oversight Council.

In early 2015, the Deputy Secretary directed an end-to-end review of the National Leadership Command Capability (NLCC) and Nuclear Command, Control, and Communications (NC3) enterprise. This review was led by DoD Chief Information Officer, Joint Staff, and United States Strategic Command (USSSTRATCOM) experts and provided findings and recommendations that drove near-term improvements and supported priority investment decisions.

Through the NLCC and NC3 Capability Planning Guidance (CPG), Services and Agencies are directed to fund continuing sustainment and modernization efforts, including E-4B and Integrated Tactical Warning/Attack Assessment (ITW/AA) systems.

The Council on Oversight of the National Leadership C3 System (NLC3S) 2014 annual report to Congress identified critical NLC3S sustainment and modernization programs endorsed by DoD senior leadership. The Council has ensured proper oversight and sufficient resources for Nuclear Command, Control, and Communications (NC3) modernization, and the Council is working to better integrate the activities of DoD entities to improve NC3 system capabilities.

7-3A. Lack of an Integrated End-to-End Governance Process

IG Summary of Challenge

Collaborative decision structures do not exist to provide strategic direction or manage cross-cutting risks across the Department’s nuclear weapon enterprise. Existing forums remain isolated from one another, leading to unclear and ambiguous lines of reporting, accountability, and responsibility.

7-3B. Lack of an Integrated End-to-End Governance Process

IG Assessment of Progress

Despite the current challenges in the DoD nuclear enterprise, the Department is focusing on progress and bringing senior leader focus to nuclear issues that need attention. In 2014, Secretary Hagel directed two reviews of the DoD nuclear enterprise. The reviews concluded that there is no coherent, integrated structure and synchronized set of activities characterized as a DOD nuclear enterprise. Instead, the Review found a loose federation of separate nuclear

activities often embedded in and indistinguishable from support for and execution of a wide range of non-nuclear activities. The reviews also found that the forces are meeting the demands of the mission with dedication and determination. However, the Sailors, Airmen, and Marines are paying an unsustainable price with the increasing difficulty. In response to the findings, Secretary Hagel created the Nuclear Deterrent Enterprise Review Group to help maintain senior-level focus on the nuclear mission, and to integrate all the elements of the nuclear force into a coherent enterprise. The Secretary also directed the Office of the Secretary of Defense, Cost Analysis and Program Evaluation, to monitor the implementation of the review's recommendations. This notable change and sustained efforts will reduce the risk to the DoD nuclear enterprise.

Section 171 of the National Defense Authorization Act for Fiscal Year 2014 directed the Department to establish the Council on Oversight of the National Leadership Command, Control, and Communications System (the Council). Section 171 directs the Council to be responsible for oversight of the command, control, and, communications system for the national leadership of the United States, including nuclear command, control, and communications. Assessing the effect of the Council is premature, but the commitment of resources by senior leadership to identify and correct deficiencies will likely have a very positive long-term effect.

The 2010 Nuclear Posture Review and the 2013 Report on Nuclear Employment Strategy of the United States state the key objectives of U.S. nuclear weapons policy. The 2010 Strategic Concept and the 2012 Deterrence and Defense Posture Review outline U.S. and NATO nuclear capabilities for deterrence and defense. Finally, the New START Treaty verifiably reduces and limits the strategic arsenals of both the U.S. and Russia, and is consistent with the U.S. objective of maintaining strategic stability at reduced force levels. With isolated exceptions, these policies lack coordinated, implementing guidance. Further, no governance structure exists to analyze the aggregate risk and to monitor implementation for unforeseen consequences.

Collaboration among U.S. nuclear weapon stakeholders is paramount to ensure a unified effort to meet national security requirements. Although the Nuclear Weapons Council—, which serves as the focal point of DoD and National Nuclear Security Administration (NNSA) interagency activities to maintain the U.S. nuclear weapons stockpile—carries out its statutory and regulatory responsibilities in a number of ways, the Council faces challenges in doing so.

The Council does not have an up-to-date agreement that reflects the processes it uses to carry out its responsibilities. The 1997 memorandum of agreement between the Department and the Department of Energy that guides the Council's efforts has not been updated, although the Council's responsibilities were expanded in 2013, and the 1997 memorandum does not define the roles, responsibilities, structure, and functions of the two support committees that conduct the Council's day-to-day operations.

Without an updated memorandum of agreement that describes Council processes, it may be difficult for the Council to provide greater clarity to support committee members on how their work is to be conducted. Second, a key consideration when implementing collaborative mechanisms is whether all relevant participants have been included in the effort. For example, DoD and NNSA budget and program evaluation officials are not required to attend Council support committee meetings. DoD budget and program evaluation officials are invited and generally attend, but NNSA budget and program evaluation officials generally do not attend because they are invited at the discretion of NNSA support committee members. Without a requirement that all relevant participants consistently attend all support committee meetings, the Council may be limited in its ability to manage and respond to unanticipated budget questions as they arise at meetings.

<p>7-3C. Lack of an Integrated End-to-End Governance Process</p>	<p>Department Response</p>
<p>Modernization and sustainment of safe, credible, and effective nuclear forces involves disciplined, complex, and inter-agency processes. The DoD concurs with the IG’s assessment, and the Department continues to explore and implement improvements to the governance process.</p> <p>The Council on Oversight of the National Leadership Command, Control, and Communications (C3) System is informed by numerous cross-community subordinate working groups and integrated process teams, including groups working on crypto modernization, cyber risk assessment, low frequency/very low frequency communications, Presidential and National Voice Conferencing, and Senior Leader C3 System. These subordinate groups, working through the National Leadership Command Capability (NLCC) Senior Steering Group and the NLCC Executive Management Board, review, validate, prioritize and recommend capabilities for NLCC resourcing, architecture roadmaps, assessments, and vulnerability mitigation. The process also includes a working group that reviews Service and Agency budget submissions and, as necessary, recommends high-priority additions to their Program Objective Memorandums. This robust oversight and governance process resulted in significant NLCC and Nuclear Command, Control, and Communications (NC3) resourcing gains in the 2016 Presidential Budget Submission, as well as successfully appealing to Congressional defense committees against 2016 marks to NLCC/NC3 programs.</p> <p>Based on input from the Council on Oversight of the National Leadership C3 System, as well as a recommendation from the National Leadership Command Capability (NLCC)/NC3 Enterprise Review, the Air Force is in the process of assigning a single Major Command as the overall lead for the NC3 System. Additionally, the Air Force plans to designate the NC3 System as a weapon system to consolidate program elements. The Council receives briefings and progress towards this goal is being tracked and briefed to the Council.</p> <p>Lastly, the Nuclear Weapons Council (NWC) is in the process of updating its memorandum of agreement between the Department of Defense and the Department of Energy.</p>	
<p>8. IG-Identified Challenge: Insider Threat</p>	
<p>8-1A. Security (information, physical, personnel) and Counterintelligence. Access, clearances, continuous evaluation, continuous monitoring, unauthorized disclosure, espionage.</p>	<p>IG Summary of Challenge</p>
<p>The past several years have seen significant damage done to the Department – and indeed, the wider US Intelligence Community and Homeland Security – by trusted DoD “insiders.” Recent incidents such as Chelsea Manning’s unauthorized disclosures via WikiLeaks, Edward Snowden’s revelation of highly classified NSA and military information to the media, and the Fort Hood and Washington Navy Yard shootings are only the most visible, high impact instances of the destruction brought about by current or former DoD employees or contractors.</p> <p>As defined in DOD Directive 5205.16, an Insider Threat is, “[t]he threat an insider will use her or his authorized access, wittingly or unwittingly, to do harm to the security of the United States. This can include damage to the United States through espionage, terrorism, unauthorized disclosure of national security information, or through the loss or degradation of departmental resources or capabilities.” The threat posed by DoD insiders has been recognized at the highest levels of both the Department and the Executive Branch. In October 2011,</p>	

Executive Order 13587 established the National Insider Threat Task Force, requiring Insider Threat detection and prevention programs at every federal agency that handles sensitive or classified information; specific policy guidance and minimum programmatic standards were released in November 2012 via Presidential Memorandum. Congress has acknowledged the gravity of the Insider Threat at the Department and has mandated that the Department improve information sharing protections and Insider Threat mitigation for DoD information systems (Section 922, FY 2012 NDAA).

To address the widely varied and remaining vulnerabilities, multiple DoD directives and instructions were codified since 2013, including naming the Under Secretary of Defense for Intelligence (USD(I)) as the Senior Official responsible for insider threat matters and releasing the highly anticipated DoD Insider Threat Program policy directive (DoD Directive 5205.16, September 30, 2014). As a result, even before the Snowden disclosures and Washington Navy Yard shootings, the DoD Chief Information Officer submitted a Report to Congress on Insider Threat Detection (March 29, 2013), detailing the results of extensive DoD reviews of the Department’s posture, policy, and measures taken to identify and mitigate the Insider Threat. Despite the significant personnel and financial resources directed at Insider Threat across the federal government, the Executive Office of the President continues to stress the need for reform, releasing a memo via the Office of Management and Budget in July 2014 which stated that “agencies should focus on efforts to improve infrastructure permitting, and on implementing insider threat and security clearance reform.”

Over the past two years, the Department has invested significant resources into evaluating and resolving Insider Threat issues. For instance, USD(I) released a memo in May 2014, directing DoD agencies to update and cross-reference personnel data in the Joint Personnel Adjudication System (JPAS)/Defense Central Index of Investigations (DCII)/Scattered Castles as recommended in DOD IG Report 2014-060. In December 2014, the USD(I) mandated that the Defense Security Service (DSS) would establish, staff, and operate the Defense Insider Threat Management and Analysis Center (DITMAC). The Center is scheduled to begin operating in FY 2016.

Despite the distribution of multiple Presidential, Congressional, and Departmental guidance and requirements – and the actions the Department has taken over the past two to three years – the Department still lags behind many other federal and IC agencies in identifying and mitigating the Insider Threat, which leaves DoD personnel, information, and mission attainment vulnerable to insider threats. To complicate matters, the nature of an Insider Threat continues to evolve. It is unrealistic to believe that the Department can plan for every possible contingency; however, it is crucial that the Department prioritize, aggressively pursue, and monitor initiatives to improve prevention, detection, and mitigation policies and processes.

8-1B. Security (information, physical, personnel) and Counterintelligence. Access, clearances, continuous evaluation, continuous monitoring, unauthorized disclosure, espionage.

IG Assessment of Progress

The Department is poised to manage Insider Threat risks at the enterprise-level via establishment of the Defense Insider Threat Management and Analysis Center (DITMAC). The USD(I), as the DoD Senior Official for Insider Threat, formally assigned responsibility for establishing, manning, and operation of the DITMAC to the Defense Security Service (DSS) in mid-December 2014. The DITMAC, composed of a cross-functional team of security, counterintelligence, cybersecurity, law enforcement, human resources, adjudicative, legal, and privacy personnel will gather, integrate, analyze, and respond to hard copy or electronic information that is indicative of a potential insider threat. DoD IG will review mandatory quarterly updates from DSS to USD(I).

In mid-2014, the USD(I) also mandated that the four Defense intelligence agencies – National Reconnaissance Office, National Security Agency, National Geospatial-Intelligence Agency and Defense Intelligence Agency – initiate personnel security clearance reform. Specifically, information should be entered, indexed, and shared timely to allow for identification of potential insider threats as well as material changes for an employee or contractor’s access to classified information. DOD IG will follow up with USD(I) to determine if the four agencies responded. We will also identify successes, lessons learned, and remaining obstacles to cross-referencing and indexing of insider threat information.

8-1C. Security (information, physical, personnel) and Counterintelligence. Access, clearances, continuous evaluation, continuous monitoring, unauthorized disclosure, espionage.

Department Response

The Department recognizes that its implementation of an enterprise-level insider threat program has not matched the pace of implementation observed in some other departments and agencies in the Executive Branch. However, the disparity noted is likely dictated by the overall scope of effort the Department must undertake. The Department has been extremely active, implementing several measures to establish a comprehensive insider threat program. These actions include: The Deputy Secretary of Defense designating the Under Secretary of Defense for Intelligence (USD(I)) as the DoD Senior Official for Insider Threat; the publication of a DoD Directive on insider threat; the publication of a DoD Instruction addressing the counterintelligence aspects of insider threat; forming a dedicated staff within the Office of the USD(I) to manage the DoD insider threat program at the enterprise level; including resource recommendations for the insider threat program into current and future program budget review cycles; creating a DoD-wide Insider Threat Working Group to address issues, find solutions, and share information; and developing a detailed implementation plan which provides program managers definitive guidance as they establish insider threat programs in 43 separate DoD Components. That plan will be signed during the first quarter of CY 2016.

Furthermore, the Department continues to make progress on the challenging task of identifying insiders on our information networks. This is accomplished through the implementation of tools and policies to detect and mitigate insider actions before they can negatively affect DoD resources. The Department is employing a risk-based approach to user activity monitoring by focusing on our most critical classified networks first. Many of the DoD Intelligence Community Components have fully implemented network monitoring and the Department is pursuing commercial solutions to provide this monitoring to all Geographic Component Commands. Additionally, the Department has made insider threat a separate line of effort in the latest DoD Cyber Strategy emphasizing its importance in how we defend our information. The Department has also assigned a senior executive as the DoD Liaison Officer to the National Insider Threat Task Force to further enhance the partnership between the two organizations.

The Department has also integrated insider threat as a key focus area in multiple working groups, lessons-learned forums, training initiatives, and a variety of web-based information portals. This emphasis and exposure will generate interest in the inherent threat and promote discussion on future solutions. In a related effort, the DoD Mission Assurance Coordination Board will enhance its oversight of steps taken by Components to improve the monitoring of recommendations implemented from the 2009 Fort Hood and the 2013 Washington Navy Yard shootings.

On December 12, 2014, the USD (I) directed the Director, Defense Security Service (DSS), to incubate the DITMAC. The DITMAC’s specified responsibilities include an enterprise-level management capability enabling OSD-level oversight of DoD Components’ insider threat responsibilities while ensuring Department-wide awareness for specific threshold-level insider

threat events. DITMAC operations, metrics, and case studies will inform, support, and enable the (USD (I))'s management and oversight of the Department's insider threat program. The DITMAC is projected to reach initial operational capability in October 2015 and full operational capability in the first quarter of FY 2019. In accordance with DoD Directive 5205.16, "The DoD Insider Threat Program," DoD Component insider threat programs will also establish and maintain a multi-disciplinary threat management capability to conduct and integrate the monitoring, analysis, reporting, and response to insider threats. The Component threat management elements will implement reporting channels with the DITMAC to facilitate the prompt exchange of information arising from the analysis process. These linkages will further ensure that the Department quickly reviews critical data regarding an adjudicative matter or security incident and takes swift action if warranted. The DITMAC role and responsibilities have been codified in a DoD Instruction that is undergoing coordination within the Department.

Separately, the Department has taken steps to implement a system of continuous evaluation for DoD personnel who have access to classified information. This effort will use automated records checks of authoritative commercial and government data sources to note issues of personnel security concern and supplement existing security processes to more quickly identify and prioritize information of adjudicative relevance and adverse events that occur between periodic reinvestigations. Currently, the Department is conducting pilots to validate the evaluation process and refine it to enhance performance. When fully endorsed by the Office of Personnel Management (OPM) and the Office of the Director of National Intelligence, our continuous evaluation system will relieve DoD and OPM of conducting personnel security investigations for individuals seeking Secret-level security clearances and generate immense savings for the Department.

The success of these efforts is dependent on having a general workforce that is trained to recognize behaviors of concern and a highly trained team of insider threat personnel who can quickly analyze data and respond appropriately. To meet this demand, the Department has developed insider threat training for both audiences. The DSS has developed course offerings that address insider threat awareness, reporting responsibilities, and procedures unique to staff working in analysis centers. In fact, the National Insider Threat Task Force has certified the DSS curriculum and directed all departments and agencies of the Executive Branch to use the DSS insider threat courses to train their personnel.

Although the pace and scope of future actions are affected by available resources, the Department's resolve to institutionalize an effective insider threat program has not wavered. The goals stated in National and Departmental policies remain the impetus for the measures stated here and the Department is committed to their achievement.