

Inspector General

United States
Department of Defense



DoD Officials Need to Improve
Reporting of Obligations and Expenditures
for the Guam Realignment

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Acronyms and Abbreviations

ASN(FM&C)	Assistant Secretary of the Navy (Financial Management and Comptroller)
DFAS	Defense Finance and Accounting Service
DON	Department of the Navy
FIS	Facilities Information System
ICG	Interagency Coordination Group
JGPO	Joint Guam Program Office
MILCON	Military Construction
MIPR	Military Interdepartmental Purchase Request
NAVFAC	Naval Facilities and Engineering Command
NAVFACPAC	Naval Facilities and Engineering Command Pacific
O&M	Operation and Maintenance
SABRS	Standard Accounting, Budgeting, and Reporting System
STARS	Standard Accounting and Reporting System
USMC	U.S. Marine Corps
WAWF	Wide Area Work Flow



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

June 17, 2011

MEMORANDUM FOR NAVAL INSPECTOR GENERAL

SUBJECT: DoD Officials Need to Improve Reporting of Obligations and Expenditures for the Guam Realignment (Report No. D-2011-075)

We are providing this report for review and comment. Public Law 111-84, "National Defense Authorization Act for Fiscal Year 2010," October 28, 2009, Section 2835, "Interagency Coordination Group of Inspectors General for Guam Realignment," requires the Interagency Coordination Group to conduct audits of obligations and expenditures for the Guam realignment. As reported in the 2009 "Interagency Coordination Group of Inspectors General for Guam Realignment Annual Report," February 1, 2010, the Department of the Navy obligated approximately \$60.3 million and expended approximately \$35.6 million. However, DoD did not accurately identify and report these obligations and expenditures. Guam realignment costs are expected to grow to at least \$4.2 billion in future fiscal years.

We considered the Department of the Navy comments when preparing the final report. DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Acting Assistant Secretary of the Navy (Financial Management and Comptroller) agreed with the recommendations but did not provide a completion date for the planned actions. Therefore, we request comments on Recommendations 1, 2, 3, 4, and 5 by July 17, 2011, that include a completion date.

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

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

Patricia A. Marsh

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



Results in Brief: DoD Officials Need to Improve Reporting of Obligations and Expenditures for the Guam Realignment

What We Did

Our objective was to determine whether DoD could accurately identify and report obligations and expenditures for the Guam realignment. We also determined whether DoD properly maintained supporting documentation. We reviewed the Department of the Navy (DON) 2009 obligations of approximately \$60.3 million and expenditures of approximately \$35.6 million reported in the "Interagency Coordination Group of Inspectors General for Guam Realignment Annual Report," February 1, 2010 (Annual Report).

What We Found

DoD officials did not accurately identify and report 2009 obligations and expenditures for the Guam realignment in the Annual Report. Specifically, DON personnel did not accurately identify 36 obligations, resulting in an understatement of obligations of approximately \$7.3 million, and did not adequately support 9 obligations, resulting in an overstatement of obligations of approximately \$1.9 million. Additionally, DON and Defense Finance and Accounting Service (DFAS) personnel did not accurately identify 2 expenditures, resulting in an understatement of expenditures of \$228,043, and did not adequately support 28 expenditures, resulting in an overstatement of expenditures of approximately \$13.3 million.

This occurred because the Assistant Secretary of the Navy (Financial Management and Comptroller) (ASN[FM&C]) personnel did not adequately coordinate the identification and reporting of 2009 obligations and expenditures. Specifically, ASN(FM&C) did not

- establish a code for the Guam realignment in the official accounting systems,
- establish adequate financial policies and procedures, and
- adequately monitor the coordination of the identification and reporting of obligations and expenditures.

As a result, DoD did not provide reliable Guam realignment costs for Congress. Therefore, Congress cannot ensure that Guam realignment costs are properly allocated, and it will not have reliable historical cost data for planning future military realignments.

What We Recommend

We recommend that ASN(FM&C) coordinate with DON activities and DFAS to:

- review obligations and expenditures for the Guam realignment and provide corrected obligations and expenditures;
- establish a contingency code for the Guam realignment;
- establish adequate financial policies and procedures;
- establish procedures to retain all supporting documentation; and
- conduct periodic quality assurance reviews.

Management Comments and Our Response

The Acting ASN(FM&C) agreed with the recommendations but did not provide a completion date for the planned actions. We request that ASN(FM&C) provide a completion date for the planned actions by July 17, 2011. Please see the recommendations table on the back of this page.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Assistant Secretary of the Navy (Financial Management and Comptroller)	1, 2, 3, 4, and 5	

Please provide comments by July 17, 2011.

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Introduction

Audit Objectives

Our audit objective was to determine whether DoD properly obligated and expended Guam realignment funds. Specifically, we determined whether DoD could accurately identify and report obligations and expenditures for the Guam realignment. We also determined whether DoD properly maintained supporting documentation. For this project, we did not review the validity of the requirements identified by DoD.

We conducted this audit in accordance with the requirements of Public Law 111-84, “National Defense Authorization Act for Fiscal Year 2010,” October 28, 2009, Section 2835, “Interagency Coordination Group [ICG] of Inspectors General for Guam Realignment.” Section 2835 designates the DoD Inspector General as the chairman of the ICG. The chairman is required to provide an Annual Report to the congressional defense committees, Secretary of Defense, and Secretary of the Interior. The report contains data collected from multiple organizations.

Section 2835 also requires the ICG to conduct audits of obligations and expenditures for the Guam realignment.¹ We reviewed the Department of the Navy (DON) 2009 obligations of approximately \$60.3 million and expenditures of approximately \$35.6 million reported in the “Interagency Coordination Group of Inspectors General for Guam Realignment Annual Report” (Annual Report), February 1, 2010. See Appendix A for a discussion of the scope and methodology.

Background on the Guam Realignment

On May 1, 2006, members of the U.S.-Japan Security Consultative Committee finalized the plans to relocate approximately 8,000 III Marine Expeditionary Force personnel and their 9,000 dependents from Okinawa to Guam. On August 25, 2006, the Deputy Secretary of Defense established the Joint Guam Program Office (JGPO), reporting to the Assistant Secretary of the Navy (Energy, Installations, and Environment), to facilitate, manage, and execute requirements associated with the Guam relocation. JGPO receives planning assistance from the Naval Facilities and Engineering Command (NAVFAC) in conducting analyses and developing an acquisition strategy for the infrastructure needed to support DoD’s operational requirements.

NAVFAC is a global engineering and acquisition command that supports DON, the U.S. Marine Corps (USMC), and other Federal agencies with planning, designing, constructing, and sustaining facilities for commanders, the warfighter, and their families. NAVFAC has two primary commands: NAVFAC Atlantic in Norfolk, Virginia, and NAVFAC Pacific (NAVFACPAC) in Pearl Harbor, Hawaii. NAVFACPAC has DON contracting authority and specialized expertise in design and construction acquisition, facilities support contracts, and environmental restoration and planning for the Guam realignment. Three commands fall under

¹ An obligation is a firm, legally binding agreement between parties for the acquisition of goods or services. For purposes of this report, an expenditure is the payment for goods and services that were ordered and received.

NAVFACPAC: NAVFAC Hawaii, NAVFAC Marianas in Guam, and NAVFAC Far East in Japan.

The U.S. Government and the government of Japan estimated costs for facility and infrastructure development requirements relating to the Guam realignment to be approximately \$10.3 billion. The government of Japan agreed to provide up to \$6.1 billion. The U.S. Government was to fund approximately \$4.2 billion. DoD planned to fund the majority of its costs for the Guam realignment with Operation and Maintenance (O&M) and Military Construction (MILCON) appropriations. O&M appropriations fund DoD civilian salaries, supplies and materials, furniture, equipment maintenance, real property maintenance, equipment and facility leases, food, clothing, and fuel. MILCON appropriations fund planning and design; new facility installation or assembly; the addition, expansion, alteration, or replacement of existing facilities; acquisition of an existing facility; and facility relocation. MILCON appropriations also fund equipment installed as part of a facility and related site preparation, demolition, excavation, landscaping, or other land improvements. The majority of O&M and MILCON appropriated funds are planned for obligation and expenditure in future fiscal years.

DON Obligation and Expenditure of Reimbursable O&M Funds

The Assistant Secretary of the Navy (Financial Management and Comptroller) (ASN[FM&C]) apportions O&M funds to DON activities² for their identified needs. DON activities prepare a Comptroller of the Navy Form 2275, “Order for Work and Services” (Form 2275), to request reimbursable work. DoD Components outside DON prepare a DD 448, “Military Interdepartmental Purchase Request” (MIPR), to perform reimbursable work or services. For the Guam realignment, both funding documents are submitted to a DON executing activity, which signs an acceptance copy of the funding documents and provides it to the requester.

The DON executing activity then records the funding document in the Facilities Information System (FIS). FIS is a management information system that integrates contract, design, financial, and project management information. Additionally, the DON activity obligates the funds in its official accounting systems: the Standard Accounting and Reporting System (STARS) for the Navy and the Standard Accounting, Budgeting, and Reporting System (SABRS) for USMC. As work is performed, the DON activity personnel enter their time into the Standard Labor Data Collection and Distribution Application and their travel requirements and expenses into the Defense Travel System. These systems electronically transfer expenditures back to FIS, STARS, and SABRS.

DON Obligation and Expenditure of Contract O&M Funds

DON activities prepare a Comptroller of the Navy Form 2276, “Request for Contractual Procurement” (Form 2276), to request contract work. DoD Components outside DON prepare a MIPR to request contract work and services. For the Guam realignment, both funding documents are submitted to a DON executing activity. The DON executing activity signs the funding documents, awards the contracts, and provides them back to the requester. DON

² DON activities specific to the Guam realignment include: ASN(FM&C); JGPO; NAVFAC; NAVFACPAC; Commander, Navy Installations Command; USMC; USMC Program and Resources; and USMC Forces, Pacific.

activities obligate the funds in the official accounting systems. Concurrently, the DON executing activity records the obligation in FIS. Contractors submit invoices in Wide Area Work Flow (WAWF), a system that allows contractors to electronically submit invoices and receiving reports, which DON activities certify. Once certified, the invoices flow into STARS One-Pay, an online bill paying system, and FIS. STARS One-Pay matches the certified invoices with obligations in the official accounting systems. Once matched, the invoices flow into the Automated Disbursing System for disbursement by the Defense Finance and Accounting Service (DFAS).

DON Obligation and Expenditure of MILCON Funds

DON activities generate the requirements for MILCON projects. ASN(FM&C) apportions MILCON funds to NAVFAC for generated requirements. NAVFAC authorizes NAVFACPAC to execute the MILCON funds. NAVFACPAC awards contracts and obligates the funding in FIS. FIS electronically transfers obligations to STARS. MILCON funds are expended through WAWF invoicing. Contractors submit invoices in WAWF, and DON activities certify the invoices. Once certified, the invoices flow into STARS One-Pay and FIS. STARS One-Pay matches certified invoices with obligations in the official accounting systems. Once matched, the invoices flow into the Automated Disbursing System for disbursement by DFAS.

Internal Controls Over Identifying and Reporting 2009 Obligations and Expenditures for the Guam Realignment

DoD Instruction 5010.40, "Managers' Internal Control Program (MICP) Procedures," July 29, 2010, requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. We identified internal control weaknesses as they relate to the audit objective. ASN(FM&C) did not adequately coordinate the identification and reporting of 2009 obligations and expenditures. Specifically, ASN(FM&C) did not establish a code for Guam realignment in the official accounting systems, did not establish adequate financial policies and procedures, and did not adequately monitor the coordination of the identification and reporting of obligations and expenditures. We will provide a copy of the report to the senior official responsible for internal controls in DON.

Finding. DoD Needs to Accurately Identify and Report 2009 Obligations and Expenditures for the Guam Realignment

DoD officials did not accurately identify and report 2009 obligations and expenditures for the Guam realignment in the Annual Report. Specifically, DON personnel did not:

- accurately identify 36 obligations, resulting in an understatement of obligations of approximately \$7.3 million, and
- adequately support 9 obligations, resulting in an overstatement of obligations of approximately \$1.9 million.

Additionally, DON and DFAS personnel did not:

- accurately identify 2 expenditures, resulting in an understatement of expenditures of \$228,043, and
- adequately support 28 expenditures, resulting in an overstatement of expenditures of approximately \$13.3 million.

This occurred because ASN(FM&C) personnel did not adequately coordinate the identification and reporting of 2009 obligations and expenditures. Specifically, ASN(FM&C) personnel did not:

- establish a contingency code for Guam realignment in the official accounting systems;
- establish adequate financial policies and procedures, including the retention of supporting documentation; and
- adequately monitor the coordination of the identification and reporting of obligations and expenditures.

As a result, DoD did not provide reliable Guam realignment costs for Congress. Of the total amounts we reviewed, DON personnel understated obligations and expenditures by \$7.5 million and overstated them by \$15.2 million, resulting in a total error value of \$22.7 million. Therefore, Congress cannot ensure that Guam realignment costs are properly allocated for future years, and it will not have reliable historical cost data for planning future military realignments.

Obligations and Expenditures Were Not Accurately Identified and Reported

DoD officials did not accurately identify and report 2009 obligations and expenditures for the

DON personnel did not accurately identify 36 obligations, resulting in an understatement of obligations of approximately \$7.3 million, and did not adequately support 9 obligations, resulting in an overstatement of obligations of approximately \$1.9 million.

Guam Realignment in the Annual Report. Specifically, DON personnel did not accurately identify 36 obligations, resulting in an understatement of obligations

of approximately \$7.3 million, and did not adequately support 9 obligations, resulting in an

overstatement of obligations of approximately \$1.9 million. We reviewed 51 line items containing 74 obligations valued at \$46.9 million. (See Appendix A for the methodology used to select the line items reviewed.) For one line item, DON personnel did not identify any obligations in the ICG Annual Report; however, it later confirmed that this line item should have included 32 obligations totaling almost \$5.6 million. For an additional four obligations, DON personnel reported a lower amount than was actually obligated. For example, DON personnel reported an obligation of \$1.3 million for program support costs; however, the delivery order identified an obligation of \$1.6 million. A NAVFACPAC official confirmed that the delivery order was accurate and the obligation should have been identified at \$1.6 million.

DON personnel also did not provide adequate obligation documentation to support the total value for eight obligations. For example, DON personnel originally reported approximately \$1.9 million in obligations to analyze costs and rates for various special purpose entity utility options. However, the delivery order for the contract identified 2009 obligations of almost \$700,000. Therefore, DON personnel overstated obligations by \$1.2 million. Additionally, two DON activities erroneously reported the same obligation, resulting in an overstatement of more than \$350,000 for one line item. (See Appendix B for details on the inaccurately identified and reported obligations.)

DON and DFAS personnel did not accurately identify 2 expenditures, resulting in an understatement of \$228,043, and did not adequately support 28 expenditures, resulting in an overstatement of approximately \$13.3 million. We reviewed 51 line items containing 53 expenditures valued at \$31.4 million. (See Appendix A for the methodology used to select the

DON and DFAS personnel did not accurately identify two expenditures, resulting in an understatement of expenditures of \$228,043, and did not adequately support 28 expenditures, resulting in an overstatement of expenditures of approximately \$13.3 million.

line items reviewed.) For two expenditures, DON reported a lower amount than was actually expended. For example, DON personnel reported an expenditure of approximately \$13,000 for

airspace studies. However, DFAS personnel provided vouchers that identified expenditures of approximately \$51,000, resulting in an understatement of approximately \$38,000.

Further, DFAS personnel were not able to provide adequate expenditure documentation to support the total value for 28 expenditures. For example, DON personnel originally reported approximately \$361,000 in expenditures for USMC contractor support costs. However, DFAS personnel could only provide documentation to support approximately \$61,000 in expenditures, resulting in a potential improper payment of almost \$300,000. In another instance, DFAS personnel did not provide any expenditure documentation to support approximately \$867,000 in expenditures. (See Appendix C for details on the inaccurately identified and reported expenditures.)

Improving Coordination for Reporting Obligations and Expenditures

ASN(FM&C) personnel did not adequately coordinate the identification and reporting of 2009 obligations and expenditures. Specifically, ASN(FM&C) personnel did not establish a contingency code for the Guam realignment in the official accounting systems and did not

establish adequate financial policies and procedures for identifying and reporting obligations and expenditures, including the retention of supporting documentation. Further, ASN(FM&C) personnel did not adequately monitor the coordination of the identification and reporting of obligations and expenditures.

Secretary of the Navy Instruction 5430.7Q, "Assignment of Responsibilities and Authorities in the Office of the Secretary of the Navy," August 17, 2009, states that ASN(FM&C) is responsible for all financial management and comptrollership within DON. However, ASN(FM&C) did not establish a contingency code in the DON official accounting systems to assist with identifying 2009 obligations and expenditures for the Guam realignment. In the past, ASN(FM&C) established and implemented contingency codes in DON's official accounting systems for all costs for overseas contingency operations and Hurricane Katrina relief. Having these codes helped ASN(FM&C) more accurately identify costs specific to those operations. ASN(FM&C) should coordinate with the DON activities and DFAS to establish a contingency code in the official accounting systems to assist with identifying obligations and expenditures for the Guam realignment.

ASN(FM&C) personnel also did not establish adequate financial policies and procedures for consolidating and reporting 2009 obligations and expenditures for the ICG Annual Report. The Assistant Secretary of the Navy for Installations and Environment Memorandum, "Roles and Responsibilities for the Strategic Realignment of Forces and Capabilities to Guam,"

ASN(FM&C) personnel also did not establish adequate financial policies and procedures for consolidating and reporting 2009 obligations and expenditures.

August 11, 2010, states that ASN(FM&C) should establish financial policies and oversee financial procedures and operations in support of the Guam realignment. NAVFACPAC consolidated and reported the majority of DON 2009 obligations and expenditures for the Annual Report. Specifically, NAVFACPAC consolidated NAVFAC; NAVFACPAC; Commander, Navy Installations Command; and USMC 2009 obligations and expenditures and provided the information to NAVFAC. NAVFAC provided the information to the DoD Office of Inspector General for the Annual Report. JGPO also provided 2009 obligations and expenditures to the DoD Office of Inspector General. DFAS was not involved in the identification or reporting of 2009 obligations and expenditures for the Guam realignment.

According to NAVFACPAC officials, ASN(FM&C) personnel did not provide them with any financial policies and procedures on how to compile and report the 2009 obligations and expenditures for the Guam realignment, nor did it adequately monitor the coordination of the identification and reporting. Additionally, ASN(FM&C) did not ensure the retention of adequate support for all obligations and expenditures. Finally, ASN(FM&C) did not conduct a quality assurance review, but only performed a high-level, cursory review. Therefore, ASN(FM&C) should coordinate with the DON activities and DFAS to review all 2009 obligations and expenditures for the Guam realignment and provide corrected obligations and expenditures to the ICG.

ASN(FM&C) should coordinate with the DON activities and DFAS to establish adequate financial policies and procedures to ensure that future obligations and expenditures for the Guam

realignment are accurately identified and reported for Congress. ASN(FM&C) should also coordinate with the DON activities and DFAS to establish procedures to retain all obligation and expenditure documentation for the Guam realignment to ensure adequate support exists for accurate reporting. Retention of obligation and expenditure documentation will assist the ICG in conducting a final audit on Guam realignment programs and operations, as required by Section 2835 of Public Law 111-84. Finally, ASN(FM&C) should conduct periodic quality assurance reviews to ensure accurate identification and reporting of Guam realignment obligations and expenditures.

Increasing the Reliability of Guam Realignment Costs

DoD did not provide reliable Guam realignment costs for Congress. Of the total amounts we reviewed, DON personnel understated obligations and expenditures by \$7.5 million and overstated them by \$15.2 million, resulting in a total error value of \$22.7 million. If the obligations and expenditures are inaccurately reported, Congress cannot ensure that Guam

DON personnel understated obligations and expenditures by \$7.5 million and overstated them by \$15.2 million, resulting in a total error value of \$22.7 million.

realignment costs, which are expected to grow to at least \$4.2 billion, are properly allocated to DoD in future fiscal years. Congress also will not have reliable historical cost data for planning future

military realignments. Congress could use reliable historical costs from the Guam realignment, one of the largest movements of military assets in decades, as a benchmark for planning future military realignments.

Recommendations, Management Comments, and Our Response

We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller) coordinate with the Department of the Navy activities and the Defense Finance and Accounting Service to:

- 1. Review all 2009 obligations and expenditures for the Guam realignment and provide corrected obligations and expenditures to the Interagency Coordination Group of Inspectors General for Guam Realignment.**

Department of the Navy Comments

The Acting ASN(FM&C) agreed and stated that the Office of Financial Operations would be issuing guidance directing activities to resubmit the 2009 Guam relocation obligations and expenditures to the ICG.

Our Response

The Acting ASN(FM&C) actions meet the intent of the recommendation. However, he did not provide a completion date for issuing the guidance. Therefore, we request that he provide comments on the final report that include a completion date for the planned actions.

2. Establish a contingency code in the official accounting systems specifically to identify obligations and expenditures for the Guam realignment.

Department of the Navy Comments

The Acting ASN(FM&C) agreed and stated that prescribed accounting codes would be addressed in the guidance; however, a contingency code is not the appropriate mechanism for capturing costs.

Our Response

The establishment of a contingency code in the official accounting systems will identify obligations and expenditures for the Guam realignment. The Acting ASN(FM&C) will meet the intent of the recommendation by addressing in the guidance that DoN activities use prescribed accounting codes for capturing Guam realignment costs in the official accounting systems. However, he did not provide a completion date for issuing the guidance. Therefore, we request that he provide comments on the final report that include a completion date for the planned actions.

3. Establish adequate financial policies and procedures to ensure that future obligations and expenditures for the Guam realignment are accurately identified and reported for Congress.

Department of the Navy Comments

The Acting ASN(FM&C) agreed and stated that the guidance will provide additional direction to ensure proper future reporting of obligations and expenditures for the Guam realignment.

Our Response

The Acting ASN(FM&C) actions meet the intent of the recommendation. However, he did not provide a completion date for issuing the guidance. Therefore, we request that he provide comments on the final report that include a completion date for the planned actions.

4. Establish procedures to retain all obligations and expenditure documentation for the Guam realignment to ensure adequate support exists for accurate reporting.

Department of the Navy Comments

The Acting ASN(FM&C) agreed and stated that the guidance will include direction on retaining documentation supporting obligations and expenditures for the Guam realignment and making them readily available for audit.

Our Response

The Acting ASN(FM&C) actions meet the intent of the recommendation. However, he did not provide a completion date for issuing the guidance. Therefore, we request that he provide comments on the final report that include a completion date for the planned actions.

5. Conduct periodic quality assurance reviews to ensure accurate identification and reporting of Guam realignment obligations and expenditures.

Department of the Navy Comments

The Acting ASN(FM&C) agreed and stated that the guidance will task the appropriate organizations to perform reviews.

Our Response

The Acting ASN(FM&C) actions meet the intent of the recommendation. However, he did not provide a completion date for issuing the guidance. Therefore, we request that he provide comments on the final report that include a completion date for the planned actions.

Appendix A. Scope and Methodology

We conducted this performance audit from April 2010 through April 2011 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

To determine whether DoD could accurately identify and report obligations and expenditures for the Guam realignment, we evaluated the process for reporting 2009 obligations and expenditures. During 2009, DoD reported obligations of approximately \$60.3 million and expenditures of approximately \$35.7 million in the “Interagency Coordination Group of Inspectors General for Guam Realignment Annual Report,” February 1, 2010. Only the Department of the Army and DON obligated and expended funds for this purpose in 2009. We did not review the Department of the Army obligations and expenditures of \$59,516 because it was immaterial to the overall 2009 obligations and expenditures. For this project, we did not review the validity of the requirement identified by DoD.

DON 2009 obligations of \$60.3 million and expenditures of \$35.6 million were comprised of 194 line items. Each line item contained an obligation, expenditure, or both. We stratified the 194 line item population into four strata based on the sum of obligations and expenditures originally reported. We nonstatistically selected a sample of 51 line items for review. Of the 51 sample line items, 1 consolidated an additional 23 line items that were not included in the original 194. The sample reviewed included \$46.9 million of obligations and \$31.4 million of expenditures. See Table A for our nonstatistical sample plan.

Table A. Nonstatistical Sample Plan

Stratum	Population	Sample Size	Sample Amount (in millions)	
			Obligations	Expenditures
≥ 1 million	24	24	\$39.5	\$26.9
≥ 500K to <1 million	17	9	5.0	2.2
≥100K to <500K	62	13	2.2	2.1
<100K	91	5	0.2	0.2
Total	194	51	\$46.9	\$31.4

We met with officials from the Under Secretary of Defense (Comptroller)/Chief Financial Officer to determine their involvement in reporting the 2009 obligations and expenditures. We also discussed with them lessons learned from the 2009 data submission and how they were applied to the 2010 reporting of obligations and expenditures.

We met with DON officials from ASN(FM&C); JGPO; NAVFAC; NAVFACPAC; Commander, Navy Installations Command; USMC; USMC Program and Resources; and USMC Forces, Pacific, to determine their roles and responsibilities and processes for obligating Guam

realignment funds. We also determined their involvement in reporting the 2009 obligations and expenditures. We discussed the 2009 lessons learned and 2010 reporting of obligations and expenditures. We obtained standard operating procedures and obligation documentation, including the Forms 2275 and 2276, MIPRs, statements of work, delivery and task orders, travel authorizations and vouchers, and other supporting documentation for the sample items.

We met with the Marine Corps Audit Assertion Team and Departmental Reporting at DFAS, Cleveland, to identify their roles and responsibilities and processes for expending Guam realignment funds. We obtained and reviewed payment vouchers and other supporting documentation generated by SABRS and STARS. We also obtained standard operating procedures regarding the maintenance of records.

We also met with representatives from the U.S. Pacific Command and U.S. Pacific Fleet.

Use of Computer-Processed Data

To perform this audit, we used data obtained from SABRS, STARS, and the Defense Travel System. We assessed data reliability by reviewing existing system information and interviewing knowledgeable DON and DFAS officials and by comparing Forms 2275 and 2276, MIPRs, statements of work, delivery and task orders, payment vouchers, travel authorizations and vouchers, and other supporting documentation to the identified and reported 2009 obligations and expenditures for the Guam realignment. Based on this work, we concluded that the data were sufficiently reliable and accurate for the purpose of our review.

Prior Coverage

No prior coverage has been conducted on the identification and reporting of obligations and expenditures for the Guam realignment during the last 5 years.

Appendix B. Inaccurately Identified and Reported Obligations

To determine whether DoD accurately identified and reported 2009 obligations for the Guam realignment, we nonstatistically selected a sample of 51 line items for review. These 51 line items contained 74 obligations valued at \$46.9 million. DON did not accurately identify 36 obligations, resulting in an understatement of approximately \$7.3 million, and did not adequately support 9 obligations, resulting in an overstatement of approximately \$1.9 million. Table B illustrates details of the 45 inaccurately identified and reported obligations.

Table B. Inaccurately Identified and Reported Obligations

Item No.	Obligation Type	Original Reported Amount	Verified Amount	Overstated Amount	Understated Amount
1-32*	In-House Support	0	\$5,583,886		\$5,583,886
33	Contractor Costs - Defense Posture Review Initiative Planning Cell	\$3,000,000	2,918,560	\$81,440	
34	JGPO Salaries	1,879,254	1,864,278	14,976	
35	Support in Analyzing Cost and Rates for Various Special Purpose Entity Utility Options	1,911,605	679,725	1,231,880	
36	In-House JGPO Contract Support	2,488,155	3,859,038		1,370,883
37	Contractor Costs - Marine Forces Pacific Embeds	900,000	958,837		58,837
38	Utility Study, New wells	1,354,611	1,291,589	63,022	
39	Program Support Contract	1,328,488	1,626,939		298,451
40	Coordination and Management Services	356,137	0	356,137	
41	JGPO Travel	486,125	468,671	17,454	
42	010 Program Decision Memorandum IV Corps MILCON	106,461	0	106,461	
43	NAVFAC In-House Support Costs	100,000	99,905	95	
44	Marine Forces Pacific Phase II Information Technology Build Amendment	47,253	49,760		2,507
45	Defense Posture Review Initiative Military Working Dogs Relocation, Apra Harbor	18,574	0	18,574	
	Total			\$1,890,039	\$7,314,564

*DON identified 32 obligations for in-house support after issuance of the 2009 "Interagency Coordination Group of Inspectors General for Guam Realignment Annual Report."

Appendix C. Inaccurately Identified and Reported Expenditures

To determine whether DoD accurately identified and reported 2009 expenditures for the Guam realignment, we nonstatistically selected a sample of 51 line items for review. These 51 line items contained 53 expenditures valued at \$31.4 million. DON and DFAS did not accurately identify 2 expenditures, resulting in an understatement of \$228,043, and did not adequately support 28 expenditures, resulting in an overstatement of approximately \$13.3 million. Table C illustrates details of the 30 inaccurately identified and reported expenditures.

Table C. Inaccurately Identified and Reported Expenditures

Item No.	Expenditure Type	Original Reported Amount	Verified Amount	Overstated Amount	Understated Amount
1-11*	In-House Support	\$7,210,568	\$5,005,049	\$2,205,519	
12	Contractor Costs - Defense Posture Review Initiative Planning Cell	3,000,000	220,504	2,779,496	
13	JGPO Salaries	3,052,714	4,730	3,047,984	
14	Support in Analyzing Cost and Rates for Various Special Purpose Entity Utility Options	865,381	90,071	775,311**	
15	Project Documentation, Master Plan	945,126	0	945,126	
16	Special Purpose Entity Business Model	865,880	753,000	112,880	
17	Contractor Costs - Marine Forces Pacific Embeds	900,000	16,958	883,042	
18	Contractor Costs	866,585	0	866,585	
19	Social Impacts Assessment	1,240,827	1,054,850	185,977	
20	Coordination and Management Services	619,000	521,505	97,495	
21	USMC Family Housing Public/Private Venture for Guam Transition	73,161	54,720	18,441	
22	Contractor Costs - Defense Posture Review Initiative Planning Cell (Onyx)	448,506	117,515	330,991	
23	Coordination and management services	487,095	0	487,095	
24	USMC Contractor Support	361,297	61,496	299,801	
25	Air Study for Guam Power Generation	492,745	435,624	57,121	

Item No.	Expenditure Type	Original Reported Amount	Verified Amount	Overstated Amount	Understated Amount
26	Cultural Resource Study	477,191	275,171	202,020	
27	Airspace	12,734	50,555		\$37,821
28	Commonwealth of the Northern Mariana Islands Joint Military Training Master	419,776	397,918	21,858	
29	010 Program Decision Memorandum IV Corps MILCON	106,461	296,683		190,222
30	Defense Posture Review Initiative Military Working Dogs Relocation, Apra Harbor	18,574	0	18,574	
	Total			\$13,335,316	\$228,043

*The in-house support line item consisted of 11 inaccurately identified and reported expenditures.

**Row does not sum because of rounding.

Department of the Navy Comments



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

May 13, 2011

MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL

SUBJECT: DoDIG Draft Report on Results In Brief: DoD Officials need to Improve Reporting of Obligations and Expenditures for the Guam Realignment

The Department of the Navy (DON) values high quality external reviews that provide substantive findings that enable us to improve our ability to produce accurate, reliable financial information and statements. The draft Department of Defense Inspector General report provides valuable recommendations for improvement of our accounting for the Marine Corps realignment to Guam.

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

1. Recommendation 1. Review all 2009 obligations and expenditures for the Guam Realignment and provide corrected obligations and expenditures to the Interagency Coordination Group of Inspectors General for Guam Realignment.

DON Response: Concur. FM&C Office of Financial Operations will be issuing guidance to address findings in the DoDIG audit in the near future. This guidance will direct activities with 2009 Guam relocation obligations and expenditures to resubmit to the Interagency Coordination Group of Inspectors General for Guam.

2. Recommendation 2. Establish a contingency code in the official accounting systems specifically to identify obligations and expenditures for the Guam realignment.

DON Response: Concur with comment. Prescribed accounting codes will be addressed in the guidance, however contingency code is not the appropriate mechanism for capturing costs.

3. Recommendation 3. Establish adequate financial policies and procedures to ensure that future obligations and expenditures for the Guam realignment are accurately identified and reported for Congress.

Department of the Navy Comments

SUBJECT: DoDIG Draft Report on Results In Brief: DoD Officials need to Improve Reporting of Obligations and Expenditures for the Guam Realignment

DON Response: Concur. The guidance referenced above, will also provide additional direction to ensure proper future reporting of obligations and expenditures for the Guam realignment.

4. Recommendation 4. Establish procedures to retain all supporting documentation for the Guam realignment to ensure adequate support exists for accurate reporting.

DON Response: Concur. FMR Volume 1 Chapter 9, details the requirements for the retention of documentation. The above referenced guidance will include direction on retaining documentation supporting obligation and expenditures for the Guam realignment and making them readily available for audit.

5. Recommendation 5. Conduct periodic quality assurance reviews to ensure accurate identification and reporting of Guam realignment obligations and expenditures.

DON Response: Concur. Within the guidance referenced in the response to recommendation #1, the appropriate organizations will be tasked to perform such reviews.

The DON welcomes the opportunity to work transparently with the DODIG to further improve our financial management processes, procedures and policy. My point of contact in this matter is [REDACTED]



John W. McNair
Acting



Inspector General Department of Defense

