

Inspector General

United States
Department of Defense



Internal Controls Over Naval Special Warfare Command
Comptroller Operations in Support of
Contingency Operations

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Acronyms and Abbreviations

FMR	Financial Management Regulation
GWOT	Global War on Terror
NSW	Naval Special Warfare
NSWG	Naval Special Warfare Group
OEF	Operation Enduring Freedom
OIF	Operation Iraqi Freedom
SEAL	Sea, Air, Land
STARS-FL	Standard Accounting and Reporting System, Field Level
USSOCOM	United States Special Operations Command



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

September 29, 2009

MEMORANDUM FOR DEPUTY ASSISTANT SECRETARY OF THE NAVY
(FINANCIAL OPERATIONS)
COMMANDER, NAVAL SPECIAL WARFARE COMMAND
NAVAL INSPECTOR GENERAL

SUBJECT: Internal Controls Over Naval Special Warfare Command Comptroller
Operations in Support of Contingency Operations
(Report No. D-2009-118)

We are providing this report for your information and use. We considered management comments on a draft of this report when preparing the final report. The Commander, Naval Special Warfare Command comments, which were endorsed by the Assistant Secretary of the Navy (Financial Management and Comptroller), Deputy Assistant Secretary (Financial Operations), conformed to the requirements of DoD Directive 7650.3; therefore, additional comments are not required.

We changed the phrase global war on terror in the title of this report to contingency operations. Throughout the report, we use the phrase global war on terror because this was the commonly used phrase to describe the supplemental funds used to support contingency operations during the time of the audit.

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

Patricia A. Marsh
Patricia A. Marsh, CPA
Assistant Inspector General
Defense Business Operations



Results in Brief: Internal Controls Over Naval Special Warfare Command Comptroller Operations in Support of Contingency Operations

What We Did

Our objective was to determine whether internal controls properly support and account for Naval Special Warfare Command's 511 line items totaling \$86.9 million in obligations and \$49.2 million in expenditures in support of the Global War on Terror (GWOT). We compared supporting documentation for 45 line items totaling \$14.2 million in obligations and \$8.9 million in expenditures to the FY 2008 Naval Special Warfare Command GWOT Report. We tested internal controls over comptroller operations for:

- justifying funds spent,
- accounting for existence of assets and other associated supporting documentation for items purchased with GWOT funds,
- reporting obligated and expended amounts,
- capturing reported amounts, and
- maintaining supporting documentation for financial transactions.

What We Found

The Command components had internal controls in place to provide justification for obligating and expending GWOT funds for all 45 line items tested. The components also accounted for all 14 line items tested for existence. However, the Command did not implement adequate internal controls. We identified the following internal control weaknesses in the reporting of obligations and expenditures in the FY 2008 GWOT Report. Components did not:

- report obligations and expenditures under the correct operation (3 of 45 line items) or cost code (6 of 45 line items),
- accurately report obligations and expenditures (7 of 45 line items),
- capture actual expenditures monthly (6 of 45 line items), or
- provide supporting documentation for obligations and expenditures (6 of 45 line items).

What We Recommend

We recommend that the Commander, Naval Special Warfare Command:

- design and implement a standard coding structure to record obligations and expenditures and compile GWOT reports to ensure accuracy;
- revise and implement standard operating procedures for reporting obligations and expenditures under the correct operation and cost code, validate amounts, report actual expenditures monthly, and maintain adequate supporting documentation for an audit trail; and
- train components to ensure consistent preparation of reports.

Management Comments and Our Response

The Commander, Naval Special Warfare Command, through the Deputy Assistant Secretary of the Navy (Financial Operations), agreed with our recommendations. The comments were responsive. Please see the recommendations table on the back of this page.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Commander, Naval Special Warfare Command		1, 2.a, 2.b, 2.c, and 3

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Introduction

Objective

The objective of the audit was to determine whether internal controls properly support and account for Naval Special Warfare Command's obligations and expenditures in support of the Global War on Terror (GWOT).¹ Specifically, we determined the existence and correctness of supporting documentation for obligations and expenditures; accuracy of computations; and approval, certification, and use of proper forms for disbursing or deobligating funds. See the Appendix for a discussion of the scope and methodology related to the audit objectives.

Background

The Naval Special Warfare Command is the maritime component of the United States Special Operations Command (USSOCOM), activated by DOD before the September 11, 2001, terrorist attacks on the United States. USSOCOM is responsible for synchronizing DOD plans against global terrorist networks and conducting global operations, including Operation Iraqi Freedom (OIF) and Operation Enduring Freedom (OEF). Supplemental appropriations are provided by Congress to fund the incremental costs incurred by DOD to support operational requirements. USSOCOM provides supplemental funding for contingency operations to the Naval Special Warfare Command. These funds are reported monthly on the cost of war report.

The Naval Special Warfare Command's mission is "to organize, train, man, equip, educate, sustain, maintain combat readiness and deploy Naval Special Warfare [NSW] Forces to accomplish special operations missions worldwide." NSW core training focuses on strategic reconnaissance and direct action needed to combat current and future terrorist threats.

The major operational components of the Command include four Naval Special Warfare Groups (NSWG): NSWG-1 and NSWG-3 in Coronado, California, and NSWG-2 and NSWG-4 in Norfolk, Virginia. These components deploy Sea, Air, Land (SEAL) Teams, SEAL Delivery Vehicle Teams, and Special Boat Teams worldwide to meet the training, exercise, contingency, and wartime requirements of theater commanders. The other two operational components are the NSW Headquarters and NSW Center in Coronado, California. The NSW Center, on the Naval Amphibious Base, serves as a training center for NSW forces. NSW Headquarters is an Echelon II command and is responsible for the planning, programming, budgeting, and executing of resources necessary to accomplish the mission of NSW forces.

DOD Financial Management Regulation (DOD FMR), Volume 12, Chapter 23, "Contingency Operations," September 2007, states that components are required to report actual expenditures for the month and estimates for the remainder of the year.

¹ Please see the memorandum at the beginning of this report for an explanation of the change to the title.

Additionally, organizations supporting a contingency are required to capture and report all related obligations and expenditures at the lowest level of the organization. Obligations are amounts representing orders placed, contracts awarded, services received, and similar transactions during an accounting period that will require payment during the same, or a future, period. Expenditures are the depletion of assets or incurrence of liabilities (or a combination of both) during some period as a result of providing goods, rendering services, or carrying out other activities related to an entity's programs and missions.

The DOD FMR further states that cost base structure codes (cost codes) form the basic structure for reporting contingency operation costs. DOD FMR, Volume 6A, Chapter 2, "Financial Reports Roles and Responsibilities," November 2008, states that periodic validation is required in the case of commitments, obligations, and accounts payable. It also states that DOD components are responsible for ensuring the accuracy, completeness, timeliness, and documentary support for all data generated and inputted into finance and accounting systems and included in financial reports.

The Command components report obligations and expenditures on monthly and quarterly GWOT reports that provide budgeting and execution data. The reports facilitate regular communication between Command headquarters and its components about the actual cost of war and enable them to make decisions on future spending. Components report obligations and expenditures based on GWOT operations, such as OIF and OEF, and cost categories, which provide cost comparisons from period to period. The cost categories form the basic structure used by the Command headquarters to estimate and report GWOT costs. Listed below are examples of the cost codes:

- Temporary Duty/Temporary Additional Duty, which includes the cost of travel, per diem, and lodging for military and civilian personnel that result from participation in or support to the contingency operation;
- Training, which includes the cost of pre-deployment training of units and personnel to participate in or support an operation as well as the costs associated with training troops and personnel during the contingency operation;
- Supplies and Equipment, which includes the cost of supplies and equipment that are directly attributable to a contingency operation;
- Clothing and Other Personnel Equipment and Supplies, which includes the cost of individual and organizational clothing and equipment not already issued to military personnel and civilian personnel deploying to, participating in, or supporting a contingency operation; and
- Contract Services, which includes costs associated with providing contract services used during a contingency operation not covered in any other cost category.

The component comptroller is responsible for ensuring that the official accounting records from the Standard Accounting and Reporting System, Field Level (STARS-FL) accurately reflect the true financial position of the organization. For FY 2008, the Command reported approximately \$86.9 million in obligations and \$49.2 million in expenditures of GWOT supplemental funds. We judgmentally selected 45 line items with reported values totaling \$14.2 million in obligations and \$8.9 million in expenditures from a universe of 511 line items. Additionally we reviewed 104 expenditures for 14 line items for existence of assets.

Review of Internal Controls

We determined that internal control weaknesses in the Command existed as defined by DOD Instruction 5010.40, "Managers' Internal Control Program Procedures," January 4, 2006. The Command did not have the following internal controls for reporting GWOT obligations and expenditures. The Command and its components did not report obligations and expenditures under the correct operation and cost code, validate and report actual expenditures monthly, maintain supporting documentation, and ensure consistent preparation of GWOT reports. Implementing all recommendations will improve the Command's reporting procedures. We will provide a copy of this report to the senior official responsible for internal controls in the Command and in the Office of the Assistant Secretary of the Navy (Financial Management and Comptroller).

Finding. Command's Controls Over Financial Reporting in Support of the Global War on Terror

The Command components had internal controls in place to justify purchases using GWOT funds and account for the existence of assets purchased. The components also established some internal controls over financial reporting. However, they did not implement adequate internal controls to ensure that financial transactions for obligations and expenditures were:

- reported properly under the correct operation (3 of 45 line items) and cost code (6 of 45 line items) and reported all obligations and expenditures (7 of 45 line items),
- captured accurately (6 of 45 line items), and
- supported by sufficient documentation (6 of 45 line items).

As a result, the Command components inaccurately reported obligations and expenditures, which increased the risk of misstatements in the GWOT Report. To strengthen these internal controls, the Commander, Naval Special Warfare Command should:

- design and implement a standard coding structure to record obligations and expenditures and compile GWOT reports,
- revise and implement standard operating procedures, and
- train components to improve reporting.

Justification and Existence

To test the internal controls over the justification of obligations and expenditures, we reviewed 45 of 511 line items from the FY 2008 GWOT Report. These items totaled \$14.2 million in obligations and \$8.9 million in expenditures. For our sample, the Command had implemented internal controls to ensure proper justification and account for the expenditure of GWOT funds. The components supported all 45 line items tested, providing justification statements on why GWOT funds were obligated and expended.

To test the internal controls over the existence of GWOT expenditures, we then reviewed 104 expenditures from 14 line items, which totaled \$2.9 million. Of the 104 expenditures, 88 associated assets were verified at the component sites. Additionally, 16 training attendance rosters or completion certificates were verified. Our audit showed that the components had complied with DOD FMR, volume 12, chapter 23, by justifying that contingency funds were properly used for the item reviewed.

Reported Amounts

The Command did not implement adequate internal controls to ensure the proper reporting of amounts on the FY 2008 GWOT Report. Specifically, the Command components reported amounts under the incorrect operation or cost code. Components also did not report some obligations and erroneously reported expenditures as obligations. DOD FMR, volume 12, chapter 23, states that organizations supporting a contingency are required to capture and report all related obligations and expenditures at the lowest level of the organization. It further states that cost categories form the basic structure to report contingency operation costs. Additionally, DOD FMR, volume 6A, chapter 2, states that periodic validation is required in the case of commitments, obligations, and accounts payable.

GWOT Operations

Components reported 3 of 45 line items in the incorrect GWOT operation. Components report obligations and expenditures by contingency operations, such as OIF or OEF. Reporting costs under distinct operations facilitates budget execution for various contingency operations. Specifically, the following items were placed in the incorrect operation:

- NSWG-2 reported obligations and expenditures of \$50,000 for the line item referred to as brackets under OIF when it should have reported them under OIF-Military Intelligence Program.
- NSWG-2 reported an obligation of \$50,000 for adapters under OIF-Military Intelligence Program when it should have captured them in OIF.
- NSWG-3 reported an obligation and expenditure of \$14,000 for delivery vehicles in the correct operation, OEF-Afghanistan. However, when NSWG-3 sent the report to the Command, it was reported under OEF-Philippines.

Two of the errors could have resulted in either an overstatement or understatement in specific GWOT operations. One error resulted in either an overstatement or understatement in specific GWOT operations.

GWOT Cost Codes

Components used incorrect cost codes to report obligations and expenditures for 6 of 45 line items in the report. Cost codes are categories used to identify the type of expense and to help management identify how funds are being spent. Specifically, the following incorrect cost codes were used:

- NSWG-2 reported obligations of \$700,000 for items referred to as surveillance equipment under the contract services cost code instead of the supplies and equipment cost code. For this same item, NSWG-2 also reported a handling fee expenditure of \$3,000 under the supplies and equipment cost code, but should have coded that amount as contract services.

- NSWG-2 also reported an obligation and expenditure for \$1,000 for recovery training travel under the training cost code instead of the temporary duty/temporary additional duty cost code.
- NSWG-4 reported some obligations and expenditures for three line items, weapons parts, craft and vehicle parts, and gear under the supplies and equipment cost code instead of clothing and other personnel equipment and supplies.
- NSW Headquarters reported obligations of \$4 million and expenditures of \$3.1 million for interpreters under the training cost code instead of contract services cost code.

These errors overstated one GWOT cost code while understating another.

Reported Obligations and Expenditures

Components did not properly report obligations and expenditures for 7 of 45 line items. Specifically, the following obligations and expenditures were not properly reported:

- NSWG-1 did not accurately report \$29,000 in obligations for vehicles.
- NSWG-1 did not report \$34,000 in expenditures and did not accurately report \$31,000 in obligations for medical training.
- NSWG-2 reported \$167,000 in obligations for cameras, but did not record the expenditure once the amount was expended.
- NSWG-2 also reported \$50,000 in obligations for adapters and zero in expenditures, but the amount was expended.
- NSW Headquarters overlooked and did not report \$3,000 in obligations for a tactical controller.
- NSW Center reported \$1,000 in expenditures for Great Lakes supplies, but nothing was expended.
- NSW Center reported \$160,000 in expenditures for staff support travel, but STARS-FL data, travel vouchers, and travel receipts showed \$165,000.

These errors caused obligations and expenditures to be reported inaccurately.

The Command did not have internal controls in place to ensure proper reporting because their process for compiling the GWOT Report was manual and lacked thorough reviews. The Command components extract obligation and expenditure data from STARS-FL by using database queries, and subsequently, they enter the data into spreadsheets. The components use the queries to collect GWOT obligations and expenditures. The database

queries do not sort by operation and cost code. Therefore, the components sort the obligations and expenditures manually into operation and cost codes.

The components reported items under the incorrect operation and cost code and did not report all obligations and expenditures because they did not have sufficient standard operating procedures on how to report them in some cases, they overlooked amounts or they did not complete reviews of the data monthly. As a result, the Command did not properly report obligations and expenditures on the FY 2008 GWOT Report, which management uses to make decisions on spending, monitoring the cost of operations, and formulating future budgets.

To improve the accuracy of reporting, the Command should reduce the amount of manual sorting of data, update standard operating procedures to include a regular review and validation of all reports. In addition, the Command should update standard operating procedures to include guidance under the proper cost codes and train components on the proper use of cost codes. The Command could reduce the amount of manual sorting by using standard coding to record obligations and expenditures in STARS-FL to collect information more effectively by operation and cost code to compile GWOT reports.

Capturing Reported Amounts

The Command did not capture actual expenditures each month for 6 of the 45 line items on the report. Components are to report actual expenditures monthly to help management identify how funds are being spent to support the mission. Specifically, the components reported estimates instead of actual expenditures during FY 2008. For example:

- NSWG-3 captured estimates for the line item referred to as agile knife instead of actual obligations and expenditures. It overstated expenditures by \$2,000.
- NSWG-4 captured a weighted average amount for weapons parts, craft and vehicle parts, and gear instead of actual expenditures for these items. It understated expenditures by \$65,000 for the three items combined.
- NSWG-4 also captured estimated amounts for Federal Express instead of actual obligations and expenditures. It did not report \$8,000 in expenditures during the last quarter of FY 2008.
- NSW Center captured estimates for Great Lakes supplies instead of the actual amount expended each month. However, the NSW Center reconciled the estimated amounts to the actual expenditures and deobligated the difference of \$13,000 before year-end.

DOD FMR, volume 12, chapter 23, states that components are required to report actual expenditures monthly. The Command did not follow the DOD FMR guidance and capture actual expenditures monthly. As a result, the components misstated expenditures and could have used the funds elsewhere to support the mission. The Command should

revise and implement standard operating procedures that include reporting actual costs monthly.

Supporting Documentation

The Command did not support the amounts reported for 6 of the 45 line items. NSWG-1 did not provide supporting documentation, such as invoices or requisition forms, for financial transactions. NSWG-3 did not provide supporting documentation, such as invoices and requisition forms, for financial transactions. NSWG-4 provided supporting documentation for three items that could not be traced to each of the reported amounts. Specifically, the components did not support reported amounts for the following:

- NSWG-1 reported \$28,000 in expenditures for vehicles but provided invoices totaling \$20,000.
- NSWG-1 could not provide invoices for \$20,000 in expenditures for medical training. Additionally, the corresponding contract totaling \$29,000 in obligations could not be provided.
- NSWG-3 could not provide supporting documentation for \$2,000 in obligations and expenditures for agile knife.
- NSWG-4 provided supporting documentation totaling \$1.1 million in obligations and \$892,000 in expenditures that could not be traced to amounts reported for three line items because one job order number was used for weapons parts, craft and vehicle parts, and gear.²

DOD FMR, volume 6A, chapter 2, states that DOD components are responsible for ensuring the accuracy, completeness, timeliness, and documentary support for all data generated and input into finance and accounting systems and included in financial reports. DOD components are also required to maintain audit trails in sufficient detail to permit tracing of transactions from their source to their transmission to Defense Finance and Accounting Service. Audit trails are necessary to demonstrate the accuracy, completeness, and timeliness of a transaction. In addition, audit trails provide documentary support for all data generated by the DOD component.

The components did not follow DOD FMR guidance to support the amounts reported because they were missing documentation or used one job order number. As a result, we were not able to determine the validity or accuracy of some obligations and expenditures, which increases the risk of misstatements and fraud. To reduce this risk and provide an audit trail, the Command should revise and implement standard operating procedures to maintain supporting documentation.

² A job order number allows more control, less estimation, and more direct and reliable allocation of costs.

Management Actions

During our audit, the Command components took prompt action to strengthen internal controls over reporting GWOT funds.

- NSWG-2 began providing a training session on how to report costs under the proper operation and cost codes. This training will improve NSWG-2's reporting of obligations and expenditures under the correct operation and cost code.
- NSW Center began tracking and recording actual obligations and expenditures monthly. By doing this, NSW Center will improve its capturing of reported amounts, which management uses to show how funds are being spent to support the mission.
- NSWG-4 created additional job order numbers, which will strengthen its internal controls over supporting documentation and provide an audit trail.

We applaud the Command and its components for taking these actions to improve the internal control weaknesses we identified during our audit.

Management Comments on the Finding

The Commander, Naval Special Warfare Command, Assistant Chief of Staff for Force Financial Management, expressed appreciation for the audit team's thorough research and unbiased review of the Command's processes. As a result of this audit, the Command will streamline its processes to improve efficiency and the accuracy of financial reports. The procedures in place were in accordance with DOD FMR and included a standard coding structure for contingency operations. However, there was not a standard coding structure in place to identify the costs using the cost breakdown structure as required by DOD FMR. The discrepancies identified in this report did not affect the Command's reporting and decision-making process. The net result of the errors identified in the audit was \$8,000, which is less than 0.01 percent of its total cost for GWOT. Additionally, the official accounting system did not contain a field for the cost breakdown structure, which did not allow it to readily extract the data for reporting purposes.

Our Response

We appreciate the courtesy and cooperation of the Command's staff during this audit. We realize the net dollar amount of these errors was less than 0.01 percent of total costs; however, we believe that strengthening these internal controls will reduce the risk of misstatement in the financial reports.

Recommendations, Management Comments, and Our Response

We recommend that the Commander, Naval Special Warfare Command:

1. Design and implement the standardization of coding used to record obligations and expenditures to compile the Global War on Terror reports to ensure the accuracy of the reports in accordance with DOD Financial Management Regulation, Volume 6A, Chapter 2, “Financial Reports Roles and Responsibilities,” November 2008.

Management Comments

The Commander, Naval Special Warfare Command, Assistant Chief of Staff for Force Financial Management, agreed, stating that the Command was implementing standardized coding to electronically compile data for GWOT reporting as required by DOD FMR. This method will improve the accuracy of the reports by reducing the manual process that the Command currently uses. The estimated completion date is October 1, 2009.

2. Revise and implement standard operating procedures to:

- a. Validate and report actual expenditures each month,**
- b. Report obligations and expenditures under the correct operation and cost code, and**
- c. Maintain adequate supporting documentation, in accordance with DOD Financial Management Regulation, Volume 12, Chapter 23, “Contingency Operations,” September 2007, and Volume 6A, Chapter 2, “Financial Reports Roles and Responsibilities,” November 2008.**

Management Comments

The Commander, Naval Special Warfare Command, Assistant Chief of Staff for Force Financial Management, agreed. By implementing these procedures, the Command will be able to report actual data as of the official close of business for each monthly report and meet USSOCOM reporting deadlines. The estimated completion date is October 1, 2009.

3. Train components to ensure consistent preparation of reports in accordance with DOD Financial Management Regulation, Volume 12, Chapter 23, “Contingency Operations,” September 2007.

Management Comments

The Commander, Naval Special Warfare Command, Assistant Chief of Staff for Force Financial Management, agreed, stating that training components in GWOT report preparation would ensure consistency in report preparation. The estimated completion date is October 1, 2009.

Our Response

Comments from the Commander, Naval Special Warfare Command, Assistant Chief of Staff for Force Financial Management, which were endorsed by the Assistant Secretary of the Navy (Financial Management and Comptroller), Deputy Assistant Secretary (Financial Operations), are responsive to the recommendations, and no additional comments are required.

Appendix. Scope and Methodology

We conducted this performance audit from December 2008 through July 2009 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We reviewed the DOD and Naval Special Warfare Command guidance related to the internal controls over the Command comptroller operations in support of GWOT. We obtained our supporting documentation from:

- Naval Special Warfare Group (NSWG) 1,
- NSWG-2,
- NSWG-3,
- NSWG-4,
- Naval Special Warfare (NSW) Headquarters, and
- NSW Center.

We developed the audit universe from the Command's FY 2008 GWOT Report. The universe consisted of 511 line items. We summarized the obligations and expenditures by component, operation, and cost code. The universe consisted of \$86.9 million in obligations and \$49.2 million in expenditures.

We reviewed the universe and selected the two cost categories with the highest dollar amounts to review. The total for obligations was \$85.7 million, and the total for expenditures was \$48.1 million for personnel support and operating support categories. We judgmentally selected 6 line items from the personnel support category and 39 line items from the operating support category. The table summarizes the number of line items and the total obligations and expenditures tested, by component.

Number and Dollar Amounts of Line Items Tested*

Component Name	Number of Line Items	Expenditures	Obligations
NSWG-1	10	\$1,931,000	\$2,423,000
NSWG-2	14	1,671,000	3,325,000
NSWG-3	5	541,000	571,000
NSWG-4	6	1,053,000	1,391,000
NSW Headquarters	5	3,372,000	5,925,000
NSW Center	5	336,000	535,000
Total	45	\$8,904,000	\$14,170,000

* Amounts rounded to nearest thousand.

Additionally we judgmentally selected 14 line items consisting of 104 expenditures and determined whether the asset existed or there was sufficient documentation for performance of the contract. The 14 line items totaled \$3 million in expenditures. We verified existence of the asset for six of the line items, which were serialized at the component sites. We also verified eight expenditures by reviewing training attendance rosters or completion certificates.

We evaluated internal controls over the Command's obligations and expenditures in support of GWOT. To determine whether controls were effective and adequate, we assessed management's internal control procedures and implementation of the DOD FMR concerning:

- existence and correctness of supporting documentation,
- accuracy of computations,
- use of proper forms for disbursing or deobligating funds,
- certification,
- approval, and
- obligations and expenditures.

Use of Computer-Processed Data

To perform this audit, we used computer-processed data extracted from the Standard Accounting and Reporting System, Field Level (STARS-FL), which the Command uses to report obligations and expenditures. Defense Finance and Accounting Service, Rome, New York, processes all of the Command's official accounting records through STARS-FL. We compared reported amounts to several source documents, including invoices, contracts or requisitions, and receiving reports.

We determined that there were differences between system data and the supporting documents. However, the differences did not preclude use of the STARS-FL data to meet the audit objective or change the conclusions in this report. Part of our objective was to test the accuracy of amounts recorded and reported by the accounting system. Our audit results, in fact, determined that controls need to be improved to ensure that recorded and reported amounts in the accounting system are properly supported.

Prior Coverage

No prior coverage has been conducted on the Command's comptroller operations for GWOT during the last 5 years.

Assistant Secretary of the Navy (Financial Management and Comptroller) Comments



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

7000
FMO

AUG 20 2009

FIRST ENDORSEMENT on COMNAVSPECWARCOM ltr 7000 Ser N7/D238 of
13 Aug 09

From: Deputy Assistant Secretary of the Navy (Financial Operations)
To: Office of the Inspector General, Department of Defense

Subj: DEPARTMENT OF DEFENSE INSPECTOR GENERAL DRAFT REPORT
INTERNAL CONTROLS OVER NAVAL SPECIAL WARFARE COMMAND
COMPTROLLER OPERATIONS IN SUPPORT OF THE GLOBAL WAR ON
TERROR PROJECT NO. D2009-D000FN-0075.000

Encl: (1) COMNAVSPECWARCOM Response

1. I endorse COMNAVSPECWARCOM's response to the subject draft audit report.
2. My point of contact for this matter is [REDACTED]. He may be reached at [REDACTED] or via electronic mail at [REDACTED].

A handwritten signature in blue ink that reads "Dennis J. Taitano".

DENNIS J. TAITANO
Deputy Assistant Secretary of the Navy
(Financial Operations)

Copy to:
COMNAVSPECWARCOM

Naval Special Warfare Command Comments



DEPARTMENT OF THE NAVY
NAVAL SPECIAL WARFARE COMMAND
2000 TRIDENT WAY
SAN DIEGO, CALIFORNIA 92155-5599

7000
Ser N7/D238
13 Aug 09

From: Commander, Naval Special Warfare Command
To: Program Director, Defense Business Operations, Office of
the Inspector General, DOD
Via: Office of the Assistant Secretary of the Navy (Financial
Management)
Subj: DEPARTMENT OF DEFENSE INSPECTOR GENERAL DRAFT REPORT
INTERNAL CONTROLS OVER NAVAL SPECIAL WARFARE COMMAND
COMPTROLLER OPERATIONS IN SUPPORT OF THE GLOBAL WAR ON
TERROR PROJECT NO. D2009-D000FN-0075.000
Ref: (a) DoD IG Draft Report Project No. D2009-D000FN-0075.000
of July 24
Encl: (1) COMAVSPECWARCOM Comments

1. In accordance with reference (a), subject draft report was reviewed and comments are provided by enclosure (1).

2. The DoD IG team that conducted the audit was extremely thorough in their research and we appreciate their unbiased review of our processes. As a result of their review, Naval Special Warfare (NSW) procedures and processes will be streamlined to reduce man-hours required to manually prepare reports and improve the timeliness and accuracy of our reports.

3. Although NSW published guidance in compliance with the Financial Management Regulation (FMR) on the budgeting and reporting of GWOT expenses, and established standard codes to identify each GWOT cost to a specific Contingency Operation, we had not established a standard code to identify costs back to the Cost Breakdown Structure (CBS) required by the FMR and we had not developed an automated method of capturing costs from the official accounting system for the required reports. It should be noted that the few discrepancies noted in the audit did not significantly distort our execution and did not impact our decision support process. The errors were between CBS codes, between obligations and expenditures and in some cases between contingency operations. The net result was that we understated our total cost of GWOT by \$8K or less than .01% of our total GWOT expenses. It should also be noted that the CBS code required for GWOT reporting is not a data element within

Subj: DEPARTMENT OF DEFENSE INSPECTOR GENERAL DRAFT REPORT
INTERNAL CONTROLS OVER NAVAL SPECIAL WARFARE COMMAND
COMPTROLLER OPERATIONS IN SUPPORT OF THE GLOBAL WAR ON
TERROR PROJECT NO. D2009-D000FN-0075.000

the official accounting system and therefore is not readily
identified and extracted for reporting purposes.

3. My point of contact regarding this matter is [REDACTED]

[REDACTED] or [REDACTED]



R.W. DAVIS
Assistant Chief of Staff
for Force Financial Management

Copy to:
USSOCOM IG
NAVSPECWARCOM IG

COMNAVSPECWARCOM Comments to DoDIG Draft Report "Internal Controls Over Naval Special Warfare Command Comptroller Operations in Support of the Global War on Terror" dated Jul 24, 2009 (Project No. D2009-D000FN-0075.000).

We recommend that the Commander, Naval Special Warfare Command:

Recommendation 1: Design and implement the standardization of coding used to record obligations and expenditures to compile the Global War on Terror reports to ensure the accuracy of the reports in accordance with DoD Financial Management Regulation, Volume 6A, Chapter 2, "Financial Reports Roles and Responsibilities," November 2008

Management Comments: Concur. COMNAVSPECWARCOM is standardizing the Job Order Number (JON) Structure for the Naval Special Warfare (NSW) claimancy. Standardization of the JONs provides a means to electronically extract data from the official accounting system, Standard Accounting and Reporting System-Field Level (STARS-FL) and electronically compile data in the reporting format required by the Financial Management Regulation (FMR). Electronic compilation of data will improve timeliness, and accuracy and will reduce man hours required to compile the monthly reports. Estimated completion date: 1 Oct 09.

Recommendation 2: Revise and implement standard operating procedures to:

- a. Validate and report actual expenditures each month,
- b. Report obligations and expenditures under the correct operation and cost code, and
- c. Maintain adequate supporting documentation, in accordance with DoD Financial Management Regulation, Volume 12, Chapter 23, "Contingency Operations," September 2007, and Volume 6A, Chapter 2, "Financial Reports Roles and Responsibilities," November 2008.

Management Comments: Concur. Currently the process of extracting and posting data to the report formats is a manual effort. Because the current process is manual we cannot extract and report actual data thru the end of the month in time to meet the USSOCOM reporting timeframes. Therefore, we established a cut-off date a couple of days earlier than the official month and based our monthly reports on data as of the cut-off date. Although this practice corrects itself in the subsequent month, each month our reports did not reflect the last couple business day's transactions. Only at Fiscal Year end, did we require actual month end data. With electronic extraction and posting of data we anticipate that the process will be significantly

faster, allowing us to report data as of the official close of business each month and still meet USSOCOM reporting timeframes. Estimated completion date: 1 Oct 09

With the standardization of the JON structure we will publish a Standard Operating Procedure (SOP) that:

- a. Validates and report actual expenditures each month
- b. Reports obligations and expenditures under the correct operation and cost code.

Our SOP will also include basic documentation guidance that requires components to:

- c. Maintain adequate supporting documentation, in accordance with DoD Financial Management Regulation, Volume 12, Chapter 23, "Contingency Operations," September 2007, and Volume 6A, Chapter 2, "Financial Reports Roles and Responsibilities," November 2008.

Recommendation 3: Train components to ensure consistent preparation of reports in accordance with DoD Financial Management Regulation, Volume 12, Chapter 23, "Contingency Operations," September 2007.

Management Comments: Concur. The combination of standard JONs, published SOPs, and training will ensure consistent preparation of reports. Estimated completion date: 1 Oct 09

Enclosure (1)



Inspector General Department of Defense

