Report No. D-2011-086 July 20, 2011

Inspector General
United States Department of Defense

U.S. Marine Corps Forces Special Operations Command Needs to Improve Controls Over Financial Transactions

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Acronyms and Abbreviations

CoW	Cost of War
DoD FMR	DoD Financial Management Regulation
JFTR	Joint Federal Travel Regulation
MCO	Marine Corps Order
OCO	Overseas Contingency Operations
QMAD	Quantitative Methods and Analysis Division
SABRS	Standard Accounting, Budgeting, and Reporting System
SIC	Special Interest Code
USMC	U.S. Marine Corps
USSOCOM	U.S. Special Operations Command

INSPECTOR GENERAL
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July 20, 2011

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE
(COMPTROLLER)/CHIEF FINANCIAL OFFICER
COMMANDANT, UNITED STATES MARINE CORPS
DIRECTOR, DEFENSE FINANCE AND
ACCOUNTING SERVICE
NAVAL INSPECTOR GENERAL
INSPECTOR GENERAL, UNITED STATES SPECIAL
OPERATIONS COMMAND

SUBJECT: U.S. Marine Corps Forces Special Operations Command Needs to Improve Controls Over Financial Transactions (Report Number D-2011-086)

We are providing this report for your information and use. The U.S. Marine Corps Forces Special Operations Command trains and deploys forces and is responsible for managing its funds. The U.S. Marine Corps Forces Special Operations Command did not have effective controls over recording and processing baseline and contingency funds valued at $131.8 million in obligations and $54.1 million in expenditures. We considered comments from the Assistant Secretary of the Navy (Financial Management and Comptroller) on a draft of this report when preparing the final report.

Comments to the draft of this report conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, we do not require any additional comments.

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
Financial Management and Reporting

Results in Brief: U.S. Marine Corps Forces Special Operations Command Needs to Improve Controls Over Financial Transactions

What We Did

Our objective was to determine whether internal controls over the U.S. Marine Corps Forces Special Operations Command (the Command) comptroller operations were effective and in accordance with applicable guidance and regulations.

What We Found

The Command did not have effective controls over recording and processing 35,699 transactions using baseline and contingency funds valued at $131.8 million in obligations and $54.1 million in expenditures from October 1, 2008 to October 16, 2009. The 320 sample transactions included obligations valued at $83.8 million and expenditures at $20.6 million; 245 transactions had one or more deficiencies. Specifically, Command personnel:

- recorded 30 obligations valued at $300,000 without an official signing the authorization and approval;
- made 14 expenditures valued at $700,000 for the purchase of goods and services without an official receipt;
- approved 26 travel vouchers valued at $200,000 with incorrect and unsupported expenses;
- recorded 19 obligations valued at $600,000 and 14 expenditures valued at $300,000 that did not match the supporting documentation; and
- processed 215 transactions with insufficient supporting documentation that included obligations valued at $37 million and expenditures valued at $20 million.

This occurred because the Command lacked adequate standard operating procedures, training for personnel, and quality assurance reviews. In addition, experienced accounting personnel were frequently deployed and replaced by inexperienced personnel. As a result, the Command made improper travel payments of $11,000 and reported inaccurate and incomplete financial data of $37 million in obligations and $20 million in expenditures.

Further, the Command did not have effective controls for reporting Overseas Contingency Operations (OCO) costs of war. For example, the Command could not provide support for attributing costs to OCO for 35 transactions valued at $15.9 million in obligations and $1.5 million in expenditures. This occurred because the Command comptroller did not have standard operating procedures to verify that the transaction codes for OCO were reconciled between the Cost of War Report, accounting system, and the documentation for these costs. As a result, the Command reported inaccurate costs for Operation Enduring Freedom on the Cost of War Report.

What We Recommend

We recommend the Commander, U.S. Marine Corps Forces Special Operations Command, improve controls over processing and recording baseline and contingency operation funds by developing standard operating procedures, training personnel, and performing reviews of transactions. In conjunction with the U.S. Marine Corps Force Structure Review Group, develop a plan to address problems stemming from personnel rotation at the Command.

Management Comments and Our Response

The Assistant Secretary of the Navy (Financial Management and Comptroller) concurred with all recommendations. Management comments were responsive to the recommendations. Please see the recommendations table on the back of this page.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Commander, U.S. Marine Corps Forces Special Operations Command		A.1.a, A.1.b, A.1.c, A.1.d, A.1.e, A.1.f, A.1.g, A.2, B.1, B.2, B.3, B.4.

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Introduction

Audit Objective

The audit objective was to determine whether internal controls over the U.S. Marine Corps Forces Special Operations Command (the Command) comptroller operations were effective. Specifically, we determined whether controls were in place and operating effectively to properly report authorized, obligated, and expended baseline and contingency funds in accordance with applicable guidance and regulations. See Appendix A for a discussion of the scope and methodology related to the audit objective.

Background of MARSOC Financial Transactions

The Command is the U.S. Marine Corps (USMC) Component of the U.S. Special Operations Command (USSOCOM). The Command trains, organizes, equips, and deploys USMC special operations forces worldwide in support of DoD plans and campaigns against terror. DoD plans include overseas contingency operations (OCO), such as Operation Enduring Freedom. The Command is funded by both USSOCOM and USMC.

The Command comptroller, fund manager, and certifying officers are responsible for managing funds. The Command comptroller is responsible for maintaining oversight of transactions to ensure validity and accuracy. The fund managers are responsible for preparing source documents for financial transactions, recording transactions into the accounting system, and reconciling the source documents with the accounting system. The Command's certifying officers are responsible for the accuracy of travel vouchers submitted for payment as well as the supporting documentation for each travel voucher. In addition, certifying officers have personal liability for erroneous payments based on their certification of the travel vouchers.

USMC uses the Standard Accounting, Budgeting, and Reporting System (SABRS) as its official accounting system to record financial transactions. Whenever a fund manager requests goods, services, training, or travel, all source documents are processed into SABRS through a financial transaction cycle with the following five phases.

> First: When a transaction is initiated, funds are administratively reserved based on procurement directives or equivalent documents that authorize preliminary negotiations, which may create obligations.
>
> Second: Once funds are reserved, they are held as commitments based on firm procurement directives, orders, requisitions, authorizations to issue travel orders, or other requests that authorize the receiving organization to create an obligation.
>
> Third: After an organization enters into a firm, legally binding agreement, an obligation is recorded in the accounting system. At this time, the Government becomes contractually liable for the amount shown on the supporting document.

Fourth: When an organization's authorized receiving point receives and accepts the goods or services, an accounts payable amount is created in the appropriate accounting system.

Fifth: Finally, funds are expended in the form of payment for goods or services that were ordered and received. Expenditures[1] are made after an invoice is received from a vendor or Government agency.

Upon our request, the Command provided a universe of transactions from SABRS. The universe included 35,699 transactions that represented baseline and contingency operation funds valued at $131.8 million in obligations and $54.1 million in expenditures recorded in SABRS from October 1, 2008 to October 16, 2009. We statistically selected 317 transactions and nonstatistically selected three financial transactions valued at negative $136,000 from the universe. The 320 transactions represented the Command's obligations valued at $83.8 million and expenditures valued at $20.6 million. See Appendices A and B for more information on the scope and methodology, for details on the transactions tested, and the sampling plan.

All DoD Components, including the Command, are required to implement controls over financial reporting in accordance with applicable policy. DoD Regulation 7000.14-R, "DoD Financial Management Regulation" (DoD FMR), volume 6a, chapter 2, "Financial Reports Roles and Responsibilities," provides policy for developing and maintaining an audit trail of supporting documentation. Marine Corps Order (MCO) 7300.21A, October 2008, provides standard operating procedures to personnel for performing their financial related job duties.

Internal Controls Over MARSOC Financial Transactions

DOD Instruction 5010.40, "Managers' Internal Control Program Procedures," January 4, 2006, requires DOD organizations to implement a comprehensive system of internal controls that provide reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the control. We identified internal control weaknesses as they relate to the audit objective. The Command did not have effective controls over recording and processing obligations and expenditures. In addition, the Command did not maintain a reconcilable audit trail for the U.S. Marine Corps Cost of War report. We will provide a copy of the report to the senior official responsible for internal controls in USMC.

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[1] For the purposes of this report, we used the term "expenditures" instead of "liquidations" because it is a more commonly used term.

Finding A. Improvements are Needed for Management of Obligations and Expenditures

The Command did not have effective controls over recording and processing 35,699 transactions using baseline and contingency funds valued at $131.8 million in obligations and $54.1 million in expenditures from October 1, 2008 to October 16, 2009. The 320 sample transactions included obligations valued at $83.8 million and expenditures at $20.6 million; 245 of the 320 transactions[2] had one or more deficiencies. Specifically, Command personnel:

- recorded 30 obligations valued at $300,000 without the proper authorization and approval;
- processed 14 expenditures valued at $700,000 for the purchase of goods and services without proper receipt and acceptance;
- approved 26 travel vouchers valued at $200,000 with incorrect and unsupported expenses;
- recorded in SABRS 19 obligations valued at $600,000 and 14 expenditures valued at $300,000 that did not match the supporting documentation; and
- processed 215 transactions with insufficient supporting documentation that included obligations valued at $37 million and expenditures valued at $20 million.

This occurred because the Command comptroller lacked adequate standard operating procedures, training to guide personnel in the performance of their duties, and quality assurance reviews. Additionally, the Command comptroller did not ensure Command fund managers reconciled SABRS to supporting documentation. Command personnel were also frequently deployed and the positions were filled with inexperienced personnel. As a result, the Command made improper travel payments valued at $11,000 and increased the risk of reporting inaccurate or incomplete financial data, valued at $37 million of $131.8 million in obligations and $20 million of $54.1 million in expenditures. Additionally, these control weaknesses increased the risk of fraud and abuse and of misstatements on USMC and the Command's financial reports.

Supporting Documentation Requirements

The DoD FMR, MCO, and Joint Federal Travel Regulations (JFTR) provide policies to implement controls over financial reporting and travel. Controls must be in place to ensure that transactions are accurate, timely, and complete in accordance with DoD FMR, volume 6a, chapter 2, "Financial Reports Roles and Responsibilities." The Command should maintain a readily available and complete audit trail to support its financial transactions. In addition, Command management is responsible for ensuring the

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[2] Some of the 320 transactions contained multiple deficiencies; however, each individual transaction was counted only once as being deficient.

accuracy of the information generated and recorded in SABRS and included in financial reports.

The Command is responsible for implementing controls over financial reporting in accordance with the MCO. The MCO establishes the responsibilities of Command personnel for processing financial transactions. The Command comptroller is responsible for maintaining oversight of transactions in SABRS to ensure validity and accuracy. Command fund managers are required to reconcile and correct transactions in SABRS to ensure accuracy and completeness. Additionally, the MCO provides policy for written travel authorizations, receipts, and reimbursement of official travel expenses.

JFTR, volume 1, "Uniformed Service Members," January 2010, provides policy on controls for official travel. Command personnel are required to review official travel documents, supporting documentation, and vouchers for accuracy and completeness before expending funds.

Obligating Documents Must be Signed

The Command did not properly authorize and approve obligating documents. Specifically, Command authorizing or approving officials did not sign obligating documents for 30 transactions, valued at $300,000, of 185 transactions. For example, Command personnel provided an e-mail from a vendor confirming that an order for supplies valued at $53,000 had been placed as an obligating document. The e-mail did not have a signature or other indication that the Command authorized or approved the purchase. The MCO requires management in a USMC organization to authorize and approve an official document describing a financial transaction, including the amount for which the Government is liable.

Obligating documents did not indicate authorization or approval because Command management lacked adequate standard operating procedures and training for personnel. By processing improperly authorized and approved obligating documents, the Command increased the risk of improperly used funds and inaccurate financial reports. The Command should ensure that obligating documents are properly authorized and approved by developing standard operating procedures, providing training, and implementing a quality assurance review of controls over obligating documents.

Signing Official Receipt and Acceptance of Goods and Services

The Command did not ensure that all expenditures for goods and services were supported with a properly signed receiving report or acceptance of services. Specifically, Command personnel paid for goods and services without a signed receiving report as evidence of receipt of goods or acceptance of services for 14 expenditures, valued at $700,000, of 55 expenditures. For example, Command personnel provided a packing slip as a receiving report for an item purchased. However, personnel did not sign the packing slip. The Command paid $89,000 with insufficient evidence of receipt of the item. DoD FMR, volume 10, chapter 1, "Financial Control of Vendor and Contract Payments,"

requires a signature or an electronic alternative on all receiving reports. Additionally, the MCO requires acceptance of the goods or services by a Government employee before the funds are expended.

Expenditures for goods and services were not always supported with a properly signed receiving report or acceptance of services because Command management lacked standard operating procedures and training for receipt of goods and services. As a result, the Command increased the risk that it paid for items or services it did not receive or paid for different items or services than ordered. The Command should develop standard operating procedures and training for personnel to improve the controls over signing inspection or receiving report forms, commercial shipping documents, or packing lists for goods and services to support expenditures. Additionally, the Command should implement a quality assurance review of controls over receipt and acceptance of items and services.

Correct and Supported Expenses on Travel Vouchers

Of 63 travel vouchers, Command certifying officers and departmental accountable officials approved 26 travel vouchers with deficiencies and unsupported expenses, valued at $200,000.

Of 63 travel vouchers, Command certifying officers and departmental accountable officials approved 26 travel vouchers with deficiencies and unsupported expenses, valued at $200,000. For example, certifying officers and departmental accountable officials approved payments valued at $7,730 for rental vehicles that were located in the United States while the two travelers were overseas.

In another example, a certifying officer and a departmental accountable official approved mileage expenses on a travel voucher for the use of the traveler's privately owned vehicle for a round trip from California to North Carolina, as well as in-and-around mileage while in North Carolina, without a proper constructive travel worksheet. The traveler was paid $6,553 for mileage, which included $2,813 for 5,114 miles for the round trip from California to North Carolina. If the traveler had flown instead of driving round trip, the airfare would have cost approximately $1,236 (at current prices) versus the $2,813 paid to the traveler for mileage expenses. In addition, the Government paid the traveler $3,740 for 6,800 miles for in-and-around mileage while in North Carolina without a cost-benefit analysis on a constructive worksheet. The certifying official approved this expense without the supporting documentation to justify the mileage cost of $6,553. Command officials acknowledged these issues and initiated research into travel vouchers. See Appendix C for a list of travel vouchers with deficiencies and unsupported expenses.

The JFTR and DoD FMR specify the policies for travel. The JFTR requires supporting receipts for lodging, airfare, and other expenses over $75, and a constructive travel worksheet for any nonstandard modes of travel. The constructive travel worksheet compares costs for reimbursement of non-standard modes of travel.

Under section 2773a(c), title 10, United States Code (2006), Departmental Accountable Officials have pecuniary liability. That is,

> (3) Any pecuniary liability of a departmental accountable official under this subsection for a loss to the United States resulting from an illegal, improper, or incorrect payment is joint and several with that of any other officer or employee of the United States or member of the uniformed services who is pecuniarily liable for such loss.

Under section 3528(a)(4), title 31, United States Code (1998), certifying officers are responsible for repaying payments if the original payment was "(A) illegal, improper, or incorrect because of an inaccurate or misleading certificate; (B) prohibited by law; or (C) [did] not represent a legal obligation under the appropriation or fund involved."

Certifying officers and departmental accountable officials approved the travel vouchers with deficiencies and unsupported expenses because they did not thoroughly review travel vouchers. As a result, the Command made improper travel payments and increased the risk for fraud. To improve controls over travel, the Command should ensure certifying officers implement JFTR and DoD FMR policies, and review travel vouchers and supporting documentation. The Command should perform periodic quality assurance reviews of travel vouchers to identify issues, patterns, and areas of concern for future training opportunities and to ensure controls are operating effectively. The Command should review the performance of the certifying officers and departmental accountable officials and initiate appropriate action. The Command should also review the vouchers identified in Appendix C and recover improper payments as appropriate.

Reconcile Amounts Recorded in SABRS

The Command recorded 19 obligations valued at $600,000 and 14 expenditures valued at $300,000 in SABRS that did not match the supporting documentation. The Command provided supporting documentation that did not agree with amounts recorded in SABRS. For example, Command personnel provided a voucher for $13,084; however, they recorded $18,253 in SABRS as expended. The amount recorded in SABRS as expended matched the amount on the travel authorization rather than the actual voucher amount.

The Command must ensure the accuracy, completeness, and documentary support for all data generated, entered into SABRS, and included in financial reports in accordance with DoD FMR, volume 6a, chapter 2. In addition, the MCO requires command comptrollers to provide oversight and fund managers to reconcile transactions in SABRS to ensure accuracy and completeness. It also requires fund managers to ensure supporting

documentation is reconciled against SABRS reports to accurately match accounting records to supporting documentation. Fund managers are required to identify errors, ensure SABRS captures price increases, additional charges, or miscellaneous charges, and support any adjustment made and should maintain supporting documentation for any adjustments.

The Command incorrectly recorded obligations and expenditures because the comptroller did not maintain oversight to ensure fund managers reconciled amounts recorded in SABRS to supporting documentation. As a result, the Command increased the risk that financial transactions entered into SABRS were not accurate or complete, which may lead to misstated financial statements and other financial reports. To improve accuracy over recording obligations and expenditures, the Command comptroller should ensure fund managers consistently reconcile transactions to SABRS and support adjustments.

Sufficiently Support Transactions with Documentation

The Command did not maintain sufficient supporting documentation for 215 of 320 transactions.[3] Specifically for the 215 transactions, the Command was not able to provide adequate support for 508 requested documents. Specifically, the following types of documents were insufficient:

- 135 obligating documents valued at $37 million,
- 88 invoices valued at $15.4 million,
- 159 payment vouchers valued at $15.9 million,
- 123 receiving reports valued at $18.9 million, and
- 3 travel vouchers valued at $11,000.

The MCO requires Command personnel to maintain source documents that support fund execution.

The Command did not maintain required obligating documents for 135 transactions valued at $37 million. For example, Command personnel provided a history report as an obligating document. A history report does not support a legally binding agreement or a financial transaction, and the Command's history report did not document the request and approval process, signatures, and date. For some transactions, Command personnel did not maintain an obligating document, such as a contract. DoD FMR, volume 3, chapter 8, states that an obligation is recorded when the obligation is in writing and supported by documentation. The MCO requires an official, legally binding document supporting a financial transaction to exist. Command personnel, including fund managers, are responsible for preparing and maintaining obligating documents.

[3] Each individual transaction was counted only once as being insufficient even though some of the transactions were insufficient in more than one area.

Command personnel did not maintain supporting documentation necessary to support expenditures.

Command personnel did not maintain supporting documentation necessary to support expenditures. Specifically, of 178 invoices, 178 payment vouchers, and 178 receiving reports, the Command did not maintain 88 invoices valued at $15.4 million, 159 payment vouchers valued at $15.9 million, and 123 receiving reports valued at $18.9 million, as illustrated in the table.

Table. Supporting Documentation for 320 Sampled Transactions

Type	Provided	Not Provided	Unacceptable	Total Requested
Obligating Documents	185	48	87	320
Invoices	90	64	24	178
Receiving Reports	55	97	26	178
Payment Vouchers	19	155	4	178
Travel Vouchers	63	2	1	66

Of 66 travel vouchers, Command personnel did not maintain three travel vouchers, valued at $11,000. For example, the Command paid a traveler $3,336 without any supporting documentation, including a travel voucher. See Appendix C for a list of travel vouchers with deficiencies and unsupported expenses. DoD FMR, volume 10, chapter 8, requires Command personnel to maintain supporting documentation such as contracts, invoices, and vouchers. Additionally, the MCO requires Command personnel to maintain supporting documents that supports fund execution.

The Command also did not maintain supporting documentation necessary to support three financial transactions valued at negative $136,000. Command personnel provided SABRS screen prints showing adjustments to obligated and expended amounts in the system as supporting documentation. The screen prints did not support the basis and justification for the adjustments and did not identify the name and position of the individual approving the adjustments. DoD FMR, volume 6a, chapter 2, requires written documentation to support adjustments with enough detail to provide an audit trail as to why the adjustment occurred. The Command did not maintain complete supporting documentation because management lacked adequate standard operating procedures and training for personnel. In addition, personnel were frequently deployed and the positions were filled with personnel who did not have experience or training in processing and supporting financial transactions. Additionally, the Command lacked resources to effectively monitor transactions.

The Command increased the risk of inaccurate or unreliable amounts reported in USMC management reports and financial statements.

The Command increased the risk of inaccurate or unreliable amounts reported in USMC management reports and financial statements. The control weakness also increased the risk of improper payments, fraud, and abuse. The Commander,

U.S. Marine Corps Forces Special Operations Command, in conjunction with the U.S. Marine Corps Force Structure Review Group, should develop a plan to address the problems stemming from personnel rotation, particularly those that contribute to control weaknesses and noncompliance with the DoD FMR and MCO. The Command should develop standard operating procedures, train personnel to implement policy for maintaining documentation, and perform periodic quality assurance reviews to maintain complete, readily available supporting documentation that provides an audit trail for financial transactions.

Management Initiated Corrective Actions

The Command provided training in March and April 2010 on basic fiscal steps in all the feeder systems for SABRS. Additionally, it developed new standard operating procedures, including:

- Operational Funds, March 11, 2010;
- Non-System (Open Market) Procurement Requests, April 21, 2010; and
- Off-Line Requisitions, May 25, 2010.

The training and standard operating procedures should contribute to improved controls over processes. The SOPs developed address specific processes; however, more policies need to be developed to address all weaknesses found and as addressed by our recommendations. In addition, the Command initiated corrective actions on some of the identified travel vouchers. The actions may result in recovering approximately $11,000.

Recommendations, Management Comments, and Our Response

A.1. We recommend the Commander, U.S. Marine Corps Forces Special Operations Command:

a. Develop standard operating procedures and train personnel to properly authorize and approve obligating documents in accordance with Marine Corps Order 7300.21A, October 2008.

b. Develop standard operating procedures and train personnel to properly sign inspection or receiving report forms, commercial shipping documents, or packing lists for goods and services to support expenditures in accordance with DoD Financial Management Regulation, volume 10, chapter 1, "Financial Control of Vendor and Contract Payments" and Marine Corps Order 7300.21A, October 2008.

c. Perform quality assurance reviews of travel vouchers to improve compliance with Joint Federal Travel Regulations, volume 1, "Uniformed Service Members," January 2010.

Management Comments

The Assistant Secretary of the Navy (Financial Management and Comptroller) responding for the Commander, U.S. Marine Corps Forces Special Operations Command, agreed. The Assistant Secretary stated that the Commander, U.S. Marine Corps Forces Special Operations Command, published standard operating procedures in October 2010 to train Command personnel in proper procedures and practices for financial management responsibilities. The Command conducted training in early 2010 in various financial management topics and continues to train unit leaders and other personnel. She also stated that additional actions, such as a recent quality assurance review and tri-annual reviews with emphasis on travel transactions should address the recommendations.

Our Response

The Assistant Secretary of the Navy (Financial Management and Comptroller) comments are responsive and meet the intent of the recommendations. No further comments are required.

d. Review the travel vouchers processed by the Command including those identified in Appendix C to determine if the certifying officers and departmental accountable officials properly approved travel vouchers. Determine whether improper payments were made and recover improper payments as appropriate. Initiate appropriate action in accordance with section 2773a(c), title 10, United States Code (2006), and section 3528(a)(4), title 31, United States Code (1998).

Management Comments

The Assistant Secretary of the Navy (Financial Management and Comptroller) responding for the Commander, U.S. Marine Corps Forces Special Operations Command, agreed. She stated that the Command reviewed the 29 travel vouchers identified in Appendix C for validity and accuracy and determined that 13 were proper payments, 10 were improper payments, and 6 were undeterminable. Collection actions on approximately $4,700 of improper payments have been initiated. Approximately $3,000 has already been collected. Completion date: September 15, 2011.

Our Response

The Assistant Secretary of the Navy (Financial Management and Comptroller) comments are responsive and meet the intent of the recommendations. No further comments are required.

e. Reconcile and maintain supporting documentation for adjustments to the Standard Accounting, Budgeting, and Reporting System, according to Marine Corps Order 7300.21A, October 2008.

f. Develop standard operating procedures and train personnel to maintain supporting documentation to fully support financial transactions in accordance with DoD Financial Management Regulation, volume 6a, chapter 2, "Financial Reports Roles and Responsibilities."

g. Implement periodic quality assurance reviews of financial transactions to ensure that obligating documents are signed, receipt of items and services are signed, amounts are recorded and reported correctly and that proper supporting documentation exists and is maintained in accordance with DoD Financial Management Regulation, volume 6a, chapter 2, "Financial Reports Roles and Responsibilities" and Marine Corps Order 7300.21A, October 2008.

Management Comments

The Assistant Secretary of the Navy (Financial Management and Comptroller) responding for the Commander, U.S. Marine Corps Forces Special Operations Command, agreed. The Assistant Secretary stated that U.S. Marine Corps Forces Special Operations Command order 7300.1 policy ensures supporting documentation is reconciled and maintained. She stated that quarterly fiscal assistance visits, tri-annual reviews of unliquidated orders, and quarterly assessment reviews enforce the policy, and actions taken should address the recommendations.

Our Response

The Assistant Secretary of the Navy (Financial Management and Comptroller) comments are responsive and meet the intent of the recommendations. No further comments are required.

A.2. We recommend the Commander, U.S. Marine Corps Forces Special Operations Command, in conjunction with the U.S. Marine Corps Force Structure Review Group, develop a plan to address the problems stemming from personnel rotation that contributed to control weaknesses and noncompliance with DoD Financial Management Regulation, volume 6a, chapter 2, "Financial Reports Roles and Responsibilities."

Management Comments

The Assistant Secretary of the Navy (Financial Management and Comptroller) responding for the Commander, U.S. Marine Corps Forces Special Operations Command, agreed. She stated that the U.S. Special Operations Command and U.S. Marine Corps Forces Special Operations Command have engaged the U.S. Marine Corps Force Structure Review Group, and the proposed growth of military personnel within the Command should reduce transitions. She added that civilian-staffing growth will be more challenging because of the substantial reduction in civilian personnel as part of the Secretary of Defense efficiency review in December 2011. Completion date: December 15, 2011.

Our Response

The Assistant Secretary of the Navy (Financial Management and Comptroller) comments are responsive and meet the intent of the recommendations. No further comments are required.

Finding B. Improvements are Needed for Overseas Contingency Operations Reporting

The Command did not have effective controls for reporting Overseas Contingency Operations (OCO) costs of war. For example, the Command could not provide support for attributing costs to OCO for 35 transactions valued at $15.9 million in obligations and $1.5 million in expenditures. Specifically, the Command could not attribute costs on the USMC Cost of War (CoW) report valued at $7.2 million in obligations and $4.1 million in expenditures. Additionally, of 41 transactions in SABRS, the Command did not support special interest codes (SICs) for 35 transactions, valued at $15.9 million in obligations and $1.5 million in expenditures; of the 41 transactions, it did not ensure cost codes in SABRS cross-walked correctly to the CoW report or supporting documentation for eight transactions, valued at $13.4 million in obligations and $800,000 in expenditures.

This occurred because Command management lacked standard operating procedures to support the CoW Report with an audit trail and verify that the transaction codes for OCO were reconciled between the Cost of War Report, the accounting system, and the documentation for the costs. In addition, Command lacked standard operating procedures for personnel to reconcile changes made to cost codes within SABRS. As a result, the Command reported inaccurate costs for Operation Enduring Freedom on the Cost of War Report. Misstated CoW reports give Congress and DoD management incorrect information on the cost of war.

Overseas Contingency Operations Requirements

USMC and USSOCOM provide funding to the Command to carry out OCO missions. USMC and USSOCOM report the status of the Command's OCO funds on separate CoW reports. The CoW reports keep Congress and DoD management informed on the cost of the war. The Command records and tracks these OCO funds in SABRS. For our sample of 320 transactions, 41 were recorded in SABRS as associated with OCO.

The MCO and DoD FMR provide policy related to OCO. The Command records contingency operations in SABRS by SICs, such as for Operation Enduring Freedom. According to the MCO, the SIC is used to collect and track all obligations and expenditures associated with a specific contingency operation. Command personnel use SICs to track the costs associated with each contingency operation and produce reports of transactions from SABRS. Supporting documents, as part of the audit trail, substantiate the SICs and provide the basic facts of the transaction, such as what occurred, when the event occurred, and why the event occurred. According to DoD FMR, volume 12, chapter 23, "Contingency Operations," the Command is also required to establish unique codes to capture costs. These cost codes form the basis for cost collection and categorization for all financial transactions in SABRS. Examples of cost codes include Training, Supplies and Equipment, Transportation, and Contract Services.

Additionally, according to DoD FMR, volume 6a, chapter 2, the Command is responsible for ensuring the accuracy of the information generated and recorded in SABRS and

included in financial reports; maintain a readily available and complete audit trail to support financial transactions; periodically validate obligations and accounts payable.

USMC Cost of War Report Must be Supported

The Command did not ensure the amounts on the USMC CoW Report, valued at $7.2 million in obligations and $4.1 million in expenditures, reconciled to transaction level detail. To support the amounts reported on the CoW report, the USMC Budget Execution Division provided a transaction level detail report from SABRS. However, the Command could not trace or reconcile the CoW Report to the transaction level detail report.

The Command did not ensure the amounts on the USMC CoW Report reconciled to transaction level detail because Command management lacked standard operating procedures for personnel to create and maintain a complete audit trail for the CoW report. As a result, USMC may have misrepresented cost of war expenditures by providing inaccurate information for the USMC CoW report. The report may have given Congress and DoD management incorrect information on the cost of war. To improve the reliability of the USMC CoW report, the Command should develop standard operating procedures for personnel to maintain an audit trail that includes enough information to reconcile the report to the transaction level detail report.

Support SICs Recorded in SABRS

The Command did not provide supporting documentation that linked 35 of 41 transactions to the SIC recorded in SABRS. Specifically, 35 transactions, valued at $15.9 million in obligations and $1.5 million in expenditures, were not supported. For example, the Command recorded transactions in SABRS with the Operation Enduring Freedom SIC. The supporting documentation identified the items purchased but did not specify the purchase was being used for Operation Enduring Freedom.

SICs recorded in SABRS were not supported because Command management lacked standard operating procedures to annotate the specific operation on supporting documentation. As a result, the Command may have incorrectly reported transactions as Operation Enduring Freedom costs. In addition, there may have been transactions that supported the war that were not reported on the CoW report because they were not properly supported and recorded in SABRS. To reduce the likelihood of errors, the Command should develop standard operating procedures to substantiate the SIC used in SABRS with supporting documentation and perform quality assurance reviews of OCO transactions for basic facts, such as what was the event, where did it occur, and why did the event occur.

Reconcile Cost Codes

The Command did not ensure cost codes recorded in SABRS cross-walked correctly to CoW reports or supporting documentation. Of 41 transactions, 8 transactions, valued at $13.4 million in obligations and $800,000 in expenditures, could not be crosswalked to the CoW report or supported with documentation. For example, the Command recorded a transaction in SABRS with a transportation cost code and reported the transaction under contract services on the USSOCOM CoW. However, according to the supporting documentation the purchase should have been recorded under supplies and equipment and not transportation or contract services.

Costs did not agree with supporting documentation or with the CoW report because there were instances where cost codes were incorrectly documented or recorded, and the Command lacked standard operating procedures to reconcile the changes between the CoW report, SABRS, and documentation. As a result, the Command increased the risk of errors and misstatements on the CoW reports. Command should develop standard operating procedures to reconcile cost codes recorded in SABRS to improve the accuracy of reporting.

Recommendations, Management Comments, and Our Response

B. We recommend that the Commander, U.S. Marine Corps Forces Special Operations Command, in accordance with the DoD Financial Management Regulation, volume 6a, chapter 2, "Financial Reports Roles and Responsibilities":

1. Develop standard operating procedures to maintain the audit trail of transaction level detail reports for the U.S. Marine Corps Cost of War report.

2. Develop standard operating procedures to maintain supporting documentation that supports the special interest codes for transactions supporting overseas contingency operations.

3. Perform quality assurance reviews of Overseas Contingency Operations transactions in Standard Accounting, Budgeting, and Reporting System to ensure Special Interest Codes are recorded correctly.

4. Develop standard operating procedures to reconcile cost code data entered into the Standard Accounting, Budgeting, and Reporting System with supporting documentation and U.S. Special Operations Commands Cost of War report.

Management Comments

The Assistant Secretary of the Navy (Financial Management and Comptroller) responding for the Commander, U.S. Marine Corps Forces Special Operations Command, agreed. The Assistant Secretary stated that the Commander, U.S. Marine Corps Forces Special Operations Command, published standard operating procedures in October 2010

for handling and processing OCO transactions, to include a pre-approval and requirements identification process. She also stated that quality assurance reviews are conducted simultaneously during other regular oversight activities.

Our Response

The Assistant Secretary of the Navy (Financial Management and Comptroller) comments are responsive and meet the intent of the recommendations. No further comments are required.

Appendix A. Audit Scope and Methodology

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

We reviewed the DoD FMR, MCO, and JFTR policy related to the controls over the Command's comptroller operations. Upon request, Command personnel provided an audit universe from SABRS. The universe included 35,699 transactions for baseline and contingency operation funds. The universe was valued at $131.8 million in obligations and $54.1 million in expenditures from October 1, 2008 to October 16, 2009. We statistically selected 317 transactions and nonstatistically selected three additional transactions from the universe. The 317 transactions that represented the Command's commitments, obligations, and expenditures; they originated from travel orders, supplies and service orders, credit card purchases, Military Interdepartmental Purchase Requests, contracts, and other documents. The Table on the following page summarizes the number of transactions and the value of the obligations and expenditures tested.

Additionally, of 18 transactions with negative obligation amounts, we nonstatistically selected three transactions valued at negative $136,000. We tested the three financial transactions valued at negative $136,000 for sufficient supporting documentation for the actions taken.

We requested supporting documentation for all 320 transactions. We compared the sample data for each item to SABRS, obligating documents, and expenditure documentation including receiving reports. In addition, we identified 41 of the 320 transactions as items purchased for OCO. We compared the supporting documentation, transaction level detail reports, operation codes, and cost codes, and CoW reports to summary dollar amounts for accuracy. We used the transaction dollar amount recorded in SABRS to calculate the dollar amount for deficient or unsupported obligations and expenditures for consistency throughout the report. For example, if the Command recorded expenditure in SABRS at $100 and provided invoices valued at only $50, we reported the deficiency as $100. To determine how many supporting documents were insufficient, we counted each transaction one time if the obligating document, invoice, receiving report or voucher was not provided or if it was not sufficient to support the transaction. For example, if the Command provided an obligating document to support a transaction but did not provide an invoice to support the expenditure, we counted the transaction as one transaction with insufficient supporting documentation.

Table. Types of Transactions and Associated Obligation and Expended Amounts

Type of Transaction	Number of Transactions	Obligations (in millions)	Expenditures (in millions)
Travel Orders	70	$ 0.4	$ 0.4
Direct Support Stock Control Serve Mart Purchases	110	3.9	2.3
Credit Cards	13	0.1	0.1
Military Interdepartmental Purchase Requests	53	49.0	12.5
Order for Supplies and Services	27	3.8	2.0
Request for Contractual Services	27	22.0	1.1
Funded Reimbursable Work Request Orders	8	2.0	0.3
Military Pay Open Allotments	1	0.0	0.0
Miscellaneous Financial Documents	5	1.4	0.9
Commercial Bill of Lading	2	0.8	0.7
U.S. Transportation Request	1	0.2	0.2
Total	**317**	**$83.6**	**$20.5**

Use of Computer-Processed Data

To perform this audit, we used data from SABRS. SABRS is the official accounting system for the USMC. To determine whether the Command accurately recorded obligations and expenditures in SABRS for 320 selected transactions, we compared the sample data to detailed SABRS data, contracts or requisition forms, invoices, payment vouchers, required travel receipts, and receiving reports. We determined that the SABRS data were sufficiently reliable for the purpose of our audit.

Use of Technical Assistance

An operations research analyst of the Quantitative Methods and Analysis Division (QMAD) of the DoD Office of Inspector General selected the statistical portion of the sample. See Appendix B for detailed information on the work QMAD performed.

Prior Coverage of the Command's Comptroller Operations

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

Appendix B. Statistical Sample

Population. Upon request, the Command provided us with 35,699 transactions for baseline and contingency operation funds. These transactions represent commitments, obligations, and expenditures executed from October 1, 2008 through October 16, 2009.

Sample Plan. The Quantitative Methods and Analysis Division of the DoD Office of Inspector General stratified the population of 35,681 transactions based on the commitment amount into six strata excluding the 18 transaction with negative commitment amounts. Based on calculations, what-if analyses, and professional judgment, QMAD designed a stratified sampling plan at the 95-percent confidence level that yielded a sample size of 317 transactions. Using the random number generator in Excel, QMAD randomly selected (without replacement) transactions within each stratum. The table shows the sampling selection per strata.

Table. Sample Plan.

Strata	Stratum Population Size	Sample Size
Greater than or equal to 500 thousand	37	37
Greater than or equal to 100 thousand — less than 500 thousand	108	60
Greater than or equal to 10 thousand — less than 100 thousand	777	100
Greater than or equal to 1thousand — less than 10 thousand	5,523	60
Greater than or equal to 100 — less than 1 thousand	9,119	30
Greater than or equal to 0 — less than 100	20,117	30
Total	**35,681**	**317**

Results. We selected a statistical sample, in part, for the option to project our findings across the population. However, the sample contained different types of transactions such as travel, non-travel, and OCO. Attribute comparison was therefore inconsistent. As a result, we decided projection would not be appropriate for reporting our results.

Appendix C. Travel Vouchers With Deficiencies or Unsupported Expenses

Standard Document Number	Sample Amount
M6790609TOUT91X	$23,141.61
M6790609TOUZ2NZ	$19,492.75
M6790609TOTX28H	$18,253.00
M6790609TOTQTQ8	$14,886.23
M6790609TOV11T6	$14,296.10
M6790609TOUZJVA	$14,179.40
M6790609TOUH3RH	$13,250.62
M6790609TOUYE69	$12,696.61
M6790609TOUNXD1	$12,142.06
M6790609TOUGWUG	$11,854.57
M6790609TOV3990	$11,389.81
M6790609TOVABKY	$10,456.08
M6790609TOV5MX1	$10,225.58
M6790609TOVT9U8	$ 9,327.40
M6790609TOUVKI9	$ 5,912.47
M6790609TOUB7B9	$ 5,869.47
M6790609TOTXV0Y	$ 4,239.14
M6790609TOUZR62	$ 3,868.37
M6790609TOUSMFA	$ 3,335.50
M6790609TOVQBUE	$ 2,743.69
M6790609TOV46GM	$ 2,593.59
M6790609TOTZ6YX	$ 2,007.89
M6790609TOV5NAA	$ 1,394.30
M6790609TOVQUYW	$ 1,391.90
M6790609TOU2UED	$ 1,330.50
M6790609TOU26BT	$ 1,246.39
M6790609 TOW4UV5	$ 1,048.08
M6790609TOVJZKP	$ 1,031.06
M6790609TOSE50K	$ 172.50

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

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

June 8, 2011

MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL

SUBJECT: U.S. Marine Corps Forces Special Operations Command Needs to Improve Controls Over Financial Transactions (Project No. D 2009-DOOOFN-0301.000)

The Department of the Navy (DON) appreciates the opportunity to respond to the subject Department of Defense Inspector General (DoDIG) draft report. Our comments reflect that we concur with all the recommendations and believe that actions taken to date should close out all but two recommendations, A1.d. and A.2.

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

RECOMMENDATION A.1.Recommend the Commander, U.S. Marine Corps Forces Special Operations Command:

A.1.a. Develop standard operating procedures and train personnel to properly authorize and approve obligating documents in accordance with Marine Corps Order 7300.21A, October 2008.

A.1.b. Develop standard operating procedures and train personnel to properly sign inspection or receiving report forms, commercial shipping documents, or packing lists for goods and services to support expenditures in accordance with DoD Financial Management Regulation, volume 10, chapter 1, "Financial Control of Vendor and Contract Payments" and Marine Corps Order 7300.21A, October 2008.

DON Response: Concur. Commander, U.S. Marine Corps Forces Special Operations Command (MARSOC) published standard operating procedures for the training of personnel in a document entitled "U.S. Marine Corps Forces, Special Operations Command Order 7300.1 (Financial Management Manual) dated 21 October 2010. Additionally, the MARSOC conducted training in February/March 2010 and continues to conduct training in various Financial Management topics to Command personnel during fiscal assistance visits and small unit leader courses. Actions taken should close out these recommendations.

A.1.c. Perform quality assurance reviews of travel vouchers to improve compliance with Joint Federal Travel Regulations, volume 1, "Uniformed Service Members," January 2010.

DON Response: Concur. A quality assurance review was conducted during the 2nd quarter of Fiscal Year 2011 to assess compliance against established guidance, recently published Commander's guidance, and other applicable regulations. Additionally, tri-annual reviews of unliquidated orders are now routinely conducted with more emphasis on travel transactions. Actions taken should close out this recommendation.

SUBJECT: U.S. Marine Corps Forces Special Operations Command Needs to Improve Controls Over Financial Transactions (Project No. D 2009-DOOOFN-0301.000)

A.1.d. Review the travel vouchers processed by the Command including those identified in Appendix C to determine if the certifying officers and departmental accountable officials properly approved travel vouchers. Determine whether improper payments were made and recover improper payments as appropriate. Initiate appropriate action in accordance with section 2773a(c), title 10, United States Code (2006), and section 3528(a)(4), title 31, United States Code (1998).

DON Response: Concur. Actions were taken to determine validity and accuracy of travel vouchers listed in Appendix C. 13 of the 29 vouchers were determined to be proper payments; 10 vouchers were determined to be improper payments; and 6 vouchers were indeterminable due to aged records in the defense travel system (DTS). Collection actions have been initiated on approximately $4,700 with approximately $3,000 actually collected to date. All collection actions are expected to be complete by 15 September 2011.

A.1.e. Reconcile and maintain supporting documentation for adjustments to the Standard Accounting, Budgeting, and Reporting System (SABRS), according to Marine Corps Order 7300.21A, October 2008.

DON Response: Concur. Per MARSOC order 7300.1, policy is in place and being enforced to reconcile and maintain supporting documentation. This is currently enforced during quarterly fiscal assistance visits and tri-annual reviews of unliquidated orders. Actions taken should close out this recommendation.

A.1.f. Develop standard operating procedures and train personnel to maintain supporting documentation to fully support financial transactions in accordance with DoD Financial Management Regulation, volume 6a, chapter 2, "Financial Reports Roles and Responsibilities."

DON Response: Concur. MARSOC order 7300.1 dated 21 October 2010 details processes and practices for maintaining supporting documentation. Action taken should close out this recommendation.

A.1.g. Implement periodic quality assurance reviews of financial transactions to ensure that obligating documents are signed, receipt of items and services are signed, amounts are recorded and reported correctly and that proper supporting documentation exists and is maintained in accordance with DoD Financial Management Regulation, volume 6a, chapter 2, "Financial Reports Roles and Responsibilities" and Marine Corps Order 7300.21A, October 2008.

DON Response: Concur. MARSOC order 7300.1 is in place and is currently enforced during quarterly assessment reviews, reviews of unliquidated orders, and fiscal assistance visits. Actions taken should close out this recommendation.

SUBJECT: U.S. Marine Corps Forces Special Operations Command Needs to Improve Controls Over Financial Transactions (Project No. D 2009-DOOOFN-0301.000)

RECOMMENDATION A.2: DODIG recommends the Commander, U.S. Marine Corps Forces Special Operations Command, in conjunction with the U.S. Marine Corps Force Structure Review Group, develop a plan to address the problems stemming from personnel rotation that contributed to control weaknesses and noncompliance with DoD Financial Management Regulation, volume 6a, chapter 2, "Financial Reports Roles and Responsibilities."

DON Response: Concur. U.S. Special Operations Command (USSOCOM) and MARSOC have engaged the USMC Force Structure Review Group. The proposed growth of military personnel within MARSOC will alleviate some pressure of continuous rotations/deployments/transitions. With regard to civilian financial management positions, the DON received a substantial reduction in civilian personnel manning as part of the SECDEF efficiency review in December 2011. Civilian manpower growth will be more challenging. Further review of staffing to properly manage financial resources is required. Additional information is expected by 15 December 2011.

RECOMMENDATION B. DODIG recommends that the Commander, U.S. Marine Corps Forces Special Operations Command, in accordance with the DoD Financial Management Regulation, volume 6a, chapter 2, "Financial Reports Roles and Responsibilities":

B.1. Develop standard operating procedures to maintain the audit trail of transaction level detail reports for the U.S. Marine Corps Cost of War report.

B.2. Develop standard operating procedures to maintain supporting documentation that supports the special interest codes for transactions supporting overseas contingency operations.

DON Response: Concur. MARSOC has implemented a process of pre-approval/requirements identification that improves codifying Overseas Contingency Operations (OCO) requirements early in the process. All projected requirements are first submitted to the Comptroller for validation and approval as OCO expenditures. Actual expenditures are then reconciled to cost reports and rolled into the overall OCO authority provided by the USMC. Additionally, MARSOC order 7300.1 addresses handling and processing of these transactions. Actions taken should close out these recommendations.

B.3. Perform quality assurance reviews of Overseas Contingency Operations transactions in Standard Accounting, Budgeting, and Reporting System to ensure Special Interest Codes are recorded correctly.

B.4. Develop standard operating procedures to reconcile cost code data entered into the Standard Accounting, Budgeting, and Reporting System with supporting documentation and U.S. Special Operations Commands Cost of War report.

SUBJECT: U.S. Marine Corps Forces Special Operations Command Needs to Improve Controls Over Financial Transactions (Project No. D 2009-DOOOFN-0301.000)

DON Response: Concur. These reviews are conducted simultaneously during tri-annual reviews of unliquidated orders and fiscal assistance visits. Additionally, this information is now published and directed in MARSOC order 7300.1. Actions taken should close out these recommendations.

The DON and Marine Corps are available should you have any follow-up questions. My point of contact for this matter is [redacted]

Gladys J. Commons

Copy to:
DCMC (P&R)
DASN(Budget)

Inspector General
Department of Defense