

## Independent Auditor's Report



**INSPECTOR GENERAL**  
DEPARTMENT OF DEFENSE  
4800 MARK CENTER DRIVE  
ALEXANDRIA, VIRGINIA 22304-1500

December 20, 2013

MEMORANDUM FOR ASSISTANT DEPUTY COMMANDANT FOR PROGRAMS AND  
RESOURCES, UNITED STATES MARINE CORPS

SUBJECT: Independent Auditor's Report on the United States Marine Corps  
Schedule of Current Year Budgetary Activity for FY 2012  
(Report No. DODIG-2014-028)

### **Audit Report on the Schedule**

The United States Marine Corps prepared a Schedule of Current Year Budgetary Activity for FY 2012 (the Schedule) to include all information related to appropriations (including shared appropriations) beginning with the FY 2012 year, following the guidance in Office of Management and Budget (OMB) Circular No. A-11, "Preparation, Submission, and Execution of the Budget," (August 2011) for preparation of the SF 133 (Report on Budget Execution and Budgetary Resources).

The Department of the Navy (DON) requested that the DoD Office of Inspector General (DoD OIG) audit the Marine Corps Schedule of Current Year Budgetary Activity for FY 2012 in accordance with Statements on Auditing Standard (SAS) 62, "Special Reports," (American Institute of Certified Public Accountants [AICPA] Codification of Statements on Auditing Standard (AU) Section 623, "Special Reports"), and generally accepted government auditing standards (GAGAS) (December 2011).

Our audit objective was to determine whether the financial information reported on the Schedule of Current Year Budgetary Activity for FY 2012 is presented fairly, in all material respects, and in conformity with generally accepted accounting principles in the United States of America. Our audit included examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule. It also included assessing the accounting principles used and significant estimates made

by management, as well as an evaluation of the overall Schedule presentation and assessing the internal control over financial reporting and compliance with laws and regulations. In addition to our opinion on the Schedule, we are including the Report on Internal Control and Compliance with Laws and Regulations. The Report on Internal Control and Compliance with Laws and Regulations is an integral part of our opinion on the Schedule and should be considered in assessing the results of our work.

### ***Opinion on the Schedule***

In our opinion, the Schedule presents fairly, in all material respects the FY 2012 current-year budgetary activity of the United States Marine Corps as of September 30, 2012.

### ***Matters of Emphasis***

**Schedule of Budgetary Activity.** The Statement of Budgetary Resources (SBR) is a compilation of an agency's SF-133s and provides information about how budgetary resources were made available, as well as their status at the end of the period for all unexpired and expired appropriations. The Schedule presents less financial information than an SBR. Specifically, the Schedule only presents all information related to appropriations (including shared appropriations) beginning with the FY 2012 year. In June 2012, the Assistant Secretary of the Navy (Financial Management and Comptroller) provided an assertion letter stating that the FY 2012 Schedule of Budgetary Activity was ready for audit. As a result, we completed an audit of the Schedule instead of a full-scope audit of the SBR for FY 2012.

**Transportation of Things Estimate.** Transportation of Things includes transportation account code standard document numbers within the Marine Corps accounting system. The Marine Corps did not have sufficient documentation available to support its multiple obligation processes for the Transportation of Things transactions. Additionally, the Marine Corps was unable to match the liquidations with its corresponding obligations. Based on information we obtained during the FY 2013 Schedule audit, we determined that prior audit conclusions may have been wholly or partially incorrect. DoD OIG performed supplemental audit work

through November 2013. During this time, the Marine Corps developed a revised estimate and provided additional historical data to support this estimate. As a result, we concluded that the estimated balance was reasonable as of September 30, 2012.

**Proprietary General Ledger Accounts.** During the course of the audit, we identified transactions that were not correctly recorded in the underlying general ledger accounts. These misstatements did not have an effect on the fair presentation of the Schedule because the underlying general ledger accounts were reported on the same line of the Schedule, and the proprietary general ledger accounts were appropriately excluded from the Schedule of Budgetary Activity. However, future audits of the full Statement of Budgetary Resources or the other financial statements, such as the Balance Sheet, could be adversely affected by these errors.

**Sustainment.** Completing the audit of the Schedule was a significant challenge. Throughout the audit, the Marine Corps did not always provide timely, relevant, and sufficient audit supporting documentation. The Marine Corps also did not adequately document some processes it used to support its financial transactions, such as the Transportation of Things business processes. In these instances, either additional audit procedures were performed, or the same transactions were reviewed repeatedly to assess the adequacy of the supporting documentation. The Marine Corps may have problems sustaining the auditability of its Schedule and future financial statements if it does not address and correct these inadequate processes that cause delay and require significant effort to support reported balances. Future audits of Marine Corps SBAs or audits of complete financial statements will be facilitated by more complete and timely documentation to support transactions that will be tested. These challenges were reported to the Marine Corps through the use of Notices of Findings and Recommendation and, where appropriate, are reported in the Report on Internal Control and Compliance with Laws and Regulations.

### ***Summary of Internal Control***

In planning our work, we considered internal control over financial reporting to determine our procedures for auditing the Schedule of Current Year Budgetary Activity for FY 2012 and to comply with OMB guidance. Our purpose was not to

express an opinion. Accordingly, we do not express an opinion on internal control over financial reporting. The internal control audit work that we conducted would not necessarily disclose all significant deficiencies. Attachment 1 identifies significant deficiencies, all of which we consider to be material internal control weaknesses.

A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

### ***Summary of Compliance With Laws and Regulations***

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and accordingly, we do not express such an opinion. In FY 2012, the Marine Corps asserted to us that its financial management systems did not comply substantially with Federal financial management system requirements, generally accepted accounting principles in the United States of America, and the U.S. Government Standard General Ledger (USSGL) at the transaction level, as required by the Federal Financial Management Improvement Act of 1996 (FFMIA). Our audit work determined that the Marine Corps' internal controls over financial reporting did not meet the requirements set forth in FFMIA because of uncorrected internal control deficiencies. See Attachment 1 for additional details on compliance with laws and regulations.

### ***Management Responsibilities***


Management is responsible for implementing and maintaining effective internal control to include providing reasonable assurance that Marine Corps personnel accumulated, recorded, and reported accounting data properly; met the requirements of applicable laws and regulations; and safeguarded assets against misappropriation and abuse.

### ***Agency Comments and Our Evaluation***

We provided a draft of this report to the Assistant Deputy Commandant, Programs and Resources, (Resources), Fiscal Director. She acknowledged the material weaknesses and expressed the Marine Corps' continuing commitment to addressing

5

the problems this report outlines. Management's comments required no changes to the report. See Attachment 2 for the full text of the management comments. This report is intended solely for the information and use of Marine Corps management, DoD OIG, OMB, the Government Accountability Office, and Congress, and is not intended to be used, and should not be used, by anyone other than these specified parties.

  
Lorin T. Venable, CPA  
Assistant Inspector General  
Financial Management and Reporting

Attachments: As stated

## Report on Internal Control and Compliance With Laws and Regulations

### ***Internal Control***

Management is responsible for implementing and maintaining effective internal control and for providing reasonable assurance that accounting data are accumulated, recorded, and reported properly; that the requirements of applicable laws and regulations are met; and that assets are safeguarded against misappropriation and abuse. Our purpose was not to express an opinion on internal control over financial reporting. Prior audits disclosed significant internal control deficiencies, all of which were considered material weaknesses. However, these audits would not necessarily disclose all significant internal control deficiencies.

### ***Previously Identified Material Weaknesses***

We previously identified material weaknesses that could adversely affect the Marine Corps' financial reporting. Marine Corps management has asserted that corrective actions from previously identified weaknesses are in process but has not asserted that the corrective actions have been completed. The Marine Corps disclosed material weaknesses in its FY 2012 Statement of Assurance. These material weaknesses, and additional potential material weaknesses, were included in its management representation. These four previously reported financial management deficiencies may cause inaccurate management information.

**Financial Management Systems.** The Marine Corps recognizes it is not compliant with FFIA requirements and has material weaknesses in information system controls based on the outstanding information technology-related audit findings resident within its accounting, financial management, and mixed-use systems environment.

**Financial Management Oversight.** The Marine Corps did not always provide timely, relevant, and sufficient audit supporting documentation. In addition, the trading partners associated with fully expended and liquidated Military Standard Requisitioning and Issue Procedures orders subsequently entered adjustments to the system to return funds to the Marine Corps for these orders. This caused

abnormal balances. In addition, manual recording errors caused abnormal balances. The fund's manager review process should have detected and corrected both issues. Also, journal vouchers were not recorded in accordance with Treasury financial management guidance.

**Obligations Incurred, Unexpired Accounts.** The Marine Corps recorded liquidations that occurred before the recording of an expense or account payable. Since the expense or accounts-payable entry was not recorded in advance of the liquidation, it created abnormal balances. The Marine Corps processed adjustments to eliminate the abnormal payable balance without supporting the adjustment amount.

The Marine Corps did not have sufficient internal controls to ensure the proper recording of contract-progress-payment transactions. For example, payments made by the Marine Corps were not always supported by the contract terms and supporting documentation. We were unable to determine if these payments should have been recorded as Undelivered Orders–Obligations, Prepaid/Advances or Delivered Orders–Obligations, Paid. However, there was no impact to the Schedule, because this information is reported on the same lines.

The Marine Corps also did not record accrued expenses against open obligations for goods and/or services that were delivered at fiscal year-end. In addition, the Marine Corps did not adequately monitor payments made under intragovernmental purchase agreements to determine the accuracy and validity of the payments for goods or services. Although new controls have been implemented, they are not occurring in a consistent and timely manner to detect or correct misstatements of expenses.

The Marine Corps does not monitor and reconcile temporary standard document numbers, which can result in overstated liquidations. The Marine Corps uses temporary standard document numbers to account for net payroll and withholding but uses permanent standard document numbers to account for gross payroll amounts. However, temporary standard document numbers have balances at the end of each month because the temporary standard document number net payroll transactions are not appropriately reversed.

The Marine Corps did not adequately review military payroll transactions. The general ledger has aged balances even though these balances are eligible for write-off. Additionally, some Service members received entitlements they did not qualify for, while other Service members did not receive entitlements they were qualified to receive.

**Change in Uncollected Customer Payments from Federal Sources.** The Marine Corps improperly recorded Marine Corps to Marine Corps reimbursable activity within the same appropriation.

### ***Material Weaknesses Identified During FY 2012***

We identified the following two significant deficiencies during our FY 2012 audit, both of which are material. These additional deficiencies (or weaknesses) are related to areas with previously reported weaknesses.

**Financial Management Oversight (Reserve Payroll).** The Marine Corps does not perform the reserve payroll monthly reconciliations at the detail transaction level. Additionally, the Marine Corps was unable to provide documentation that substantiated amounts on the Leave and Earnings Statement as well as the Pay Entry Base Date. Finally, the Marine Corps had errors in manual adjustments. These control deficiencies could result in improper payments to service members.

**Change in Uncollected Customer Payments from Federal Sources.** The Marine Corps improperly recognized revenue. The Marine Corps:

- posted collections prior to receiving cash;
- provided inadequate documentation to support earning a previously recorded advance; and
- recorded a collection that included an amount for future services.

Additionally, the Marine Corps improperly recorded certain collections as reductions of obligations. The Marine Corps personnel recorded a negative liquidation instead of a collection when it:

- lent an MRAP vehicle to a foreign government;
- overpaid Marines;



- paid the costs of telephone calls made by Marines for unofficial business; and
- reimbursed previously provided and paid-for utility and steam costs.

### ***Compliance With Laws and Regulations***

Management is responsible for compliance with existing laws and regulations related to financial reporting. Prior audits identified instances of noncompliance. Providing an opinion on compliance with laws and regulations was not an objective of our audit; accordingly, we do not express an opinion. However, the following instance of noncompliance was noted.

**Federal Financial Management Improvement Act of 1996.** FFMA requires DoD to establish and maintain financial management systems that comply substantially with Federal financial management system requirements, applicable Federal accounting standards, and the USSGL at the transaction level. In FY 2012, the Marine Corps asserted that its financial management systems did not comply substantially with Federal financial management system requirements, accounting principles generally accepted in the United States of America, and the USSGL at the transaction level, as required by FFMA.

### **Recommendations**

This report does not include recommendations to correct the material weaknesses and instances of noncompliance with laws and regulations, because previous audit reports contained recommendations for corrective actions or because current audit projects will include appropriate recommendations.

## United States Marine Corps Management Comments



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20 Dec 2013

From: Fiscal Director, United States Marine Corps  
To: Deputy Inspector General for Auditing, Department of Defense

Subj: MANAGEMENT COMMENTS TO THE INDEPENDENT AUDITOR'S REPORT  
ON THE UNITED STATES MARINE CORPS SCHEDULE OF CURRENT YEAR  
BUDGETARY ACTIVITY FOR FISCAL YEAR 2012

1. The Marine Corps concurs with the Independent Auditor's Report on the United States Marine Corps Schedule of Current Year Budgetary Activity for FY 2012 and the Report on Internal Control and Compliance with Laws and Regulations.
2. The Marine Corps acknowledges the material weaknesses identified in the report and we have initiated corrective actions. Further, we remain committed to strengthening internal controls and enhancing our business processes. The Marine Corps will also continue to focus on the coordinated efforts to modernize financial management systems and improve the scope of its financial reporting process.
3. We look forward to working with the Department of Defense Inspector General's staff in future financial statement audits and related reviews.

  
ANN-CECILE M. MCDERMOTT  
Assistant Deputy Commandant  
Programs and Resources (Resources)/  
Fiscal Director  
United States Marine Corps

Attachment 3  
Page 1 of 1