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Acronyms

DIA	Defense Intelligence Agency
DoD IG	Department of Defense Inspector General
FACTS	Financial Accounting and Corporate Tracking System
NSA	National Security Agency
OMB	Office of Management and Budget
PP&E	Property, Plant, and Equipment

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Status of Prior Recommendations Related to the Defense Intelligence Agency Financial Statements

Executive Summary

Who Should Read This Report and Why? Defense Intelligence Agency (DIA) policy makers and personnel responsible for internal control, accounting for, and reporting financial information supporting the DIA financial statements, should read this report. The report addresses the progress DIA has made in correcting deficiencies identified relating to the DIA financial statements.

Background. The Office of Management and Budget Circular No. A-50, Revised, "Audit Followup," September 29, 1982, states that audit followup is an integral part of good management and is a shared responsibility of the agency management officials and the auditors. It further states that corrective action taken by management on resolved findings and recommendations is essential to improving the effectiveness and efficiency of Government operations.

During FYs 2002 through 2007, the DoD Office of Inspector General issued five audit reports with 82 recommendations that addressed deficiencies related to DIA auditability and reliability of information supporting its financial statements. This report shows the status of actions taken by DIA to implement those recommendations.

Results. DIA is making progress in implementing recommendations included in our audit reports on financial-related operations and reporting. We have closed 46 of the 82 recommendations made to correct prior reported deficiencies. Progress has been slow because many of the recommendations that remain open are directly or indirectly related to deficiencies that DIA expects to correct when it fully implements its new accounting system and establishes adequate procedures and controls to ensure supportable and reliable data are produced. If DIA establishes a centralized system to track and monitor the implementation of all prior recommendations, it should help to ensure corrective actions are taken and documented as quickly as feasible. Such a system could also provide needed oversight to ensure DIA achieves auditable and supportable financial statements. Until corrective actions are completed as outlined in previous audit reports, DIA will continue to face major challenges in producing auditable, reliable financial statements. See the Finding section of the report for the detailed recommendation.

Management Comments and Audit Response. The Director, DIA concurred with the recommendation and has established and implemented a database showing progress in correcting deficiencies and explanations of delays. This database is updated as significant changes occur. Management Comments were fully responsive to the recommendation. See the Finding section of the report for a discussion of management comments and the Management Comments section of the report for the complete text of the comments.

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Background

Defense Intelligence Agency. The Defense Intelligence Agency (DIA) is a combat support agency created on October 1, 1961, as the nation's primary producer of foreign military intelligence. The Director, DIA is the principal leadership advisor on substantive intelligence matters to the Secretary of Defense and Chairman, Joint Chiefs of Staff, and he is responsible for coordinating the use of DoD intelligence Components' personnel and resources in order to satisfy DoD intelligence requirements.

Financial Statement Reporting. Federal agencies traditionally prepared financial reports to monitor and control the obligations and expenditure of budgetary resources. With the enactment of the "Chief Financial Officers Act of 1990" (Public Law 101-576), as amended by the "Federal Financial Management Act of 1994" (Public Law 103-356), Congress called for the Executive departments to submit audited financial statements that fully disclose the departments' financial positions. Financial information from DIA is included in the DoD Agency-wide financial statements. In January 1997, the President directed the DoD intelligence agencies, including DIA, to begin preparing separate classified financial statements, which would be subject to audit.

Prior Audit Coverage. The DoD Office of Inspector General (DoD IG) conducted limited audits of DIA financial statements for FYs 2001 through 2003 and performed oversight of assessments conducted by Urbach Kahn & Werlin LLP, Certified Public Accountants, during FYs 2004 through 2007. During the audits and assessments, auditors identified numerous deficiencies that would prevent DIA or make it more difficult for DIA to obtain a favorable audit opinion on its financial statements.

Followup Guidance. Office of Management and Budget (OMB) Circular A-50, Revised, "Audit Followup," September 29, 1982, provides the policies and procedures for use by executive agencies when considering reports issued by the Inspectors General and other organizations where followup is necessary. The Circular states that audit followup is an integral part of good management. It further states that agency management officials are responsible for taking corrective actions. Corrective action taken by management on recommendations is essential to improving the effectiveness and efficiency of Government operations.

DoD Directive 7650.3, "Follow-up on General Accounting Office (GAO),¹ DoD Inspector General (DoD IG), and Internal Audit Reports," June 3, 2004, establish DoD policy and responsibilities for followup on audits findings and recommendations. The Directive requires DoD IG to evaluate corrective actions taken by the DoD Components in response to recommendations included in Government Accountability Office and DoD IG reports and identify any discrepancies to appropriate officials.

¹ The General Accounting Office is now known as the Government Accountability Office.

Objectives

Our overall audit objective was to assess management's actions and progress in correcting deficiencies identified during our prior financial-related audits. Specifically, we determined management's progress in implementing prior financial-related audit recommendations, and we reviewed corrective actions for material deficiencies that may prevent DIA from obtaining a favorable audit opinion. See Appendix A for a discussion of the scope and methodology and for prior coverage related to the objectives.

