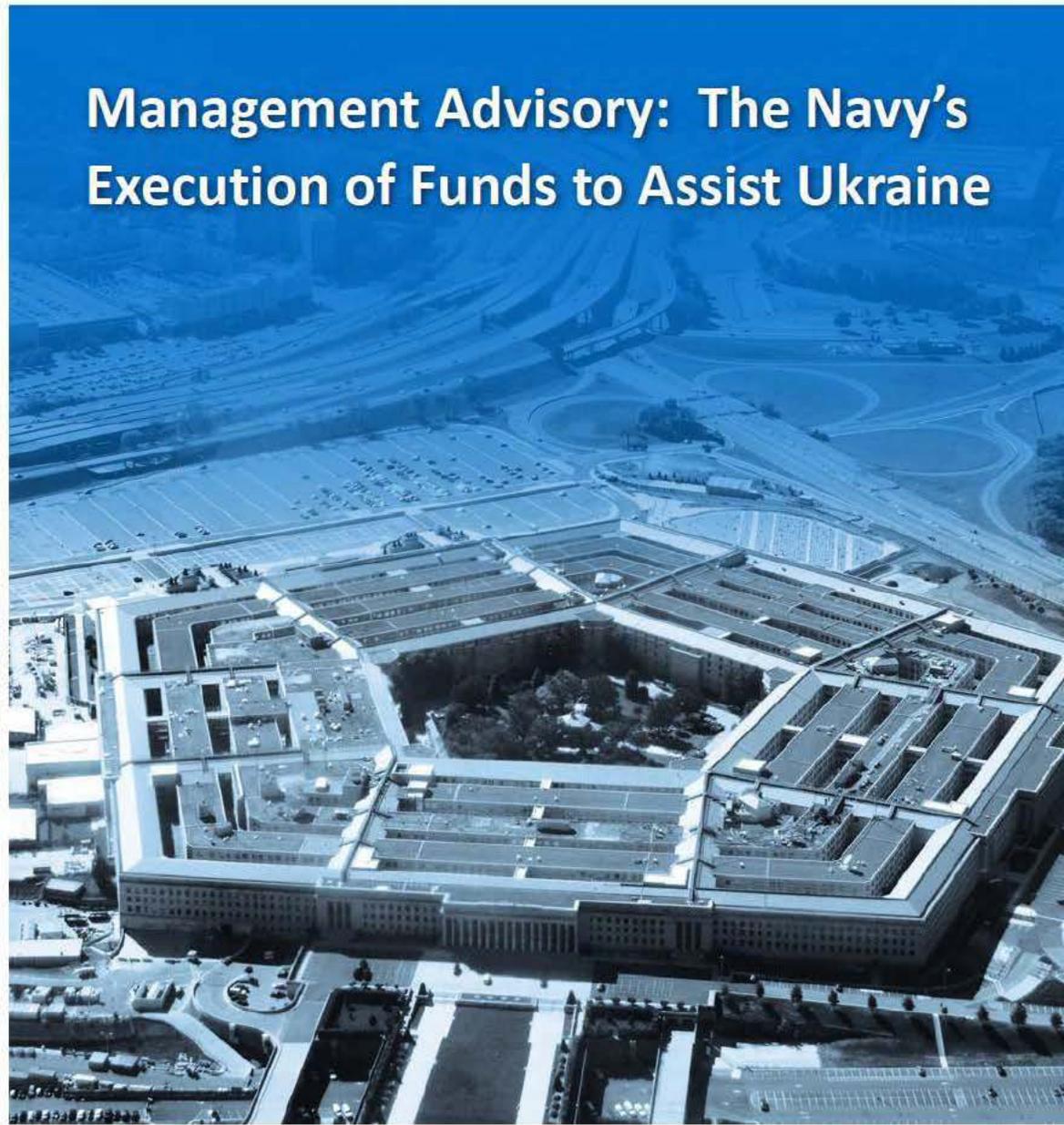




INSPECTOR GENERAL

U.S. Department of Defense

MARCH 26, 2024



Management Advisory: The Navy's Execution of Funds to Assist Ukraine

INDEPENDENCE ★ INTEGRITY ★ EXCELLENCE ★ TRANSPARENCY





OFFICE OF INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
ALEXANDRIA, VIRGINIA 22350-1500

March 26, 2024

MEMORANDUM FOR ASSISTANT SECRETARY OF THE NAVY, FINANCIAL
MANAGEMENT AND COMPTROLLER
AUDITOR GENERAL, DEPARTMENT OF THE NAVY

SUBJECT: Management Advisory: The Navy's Execution of Funds to Assist Ukraine
(Report No. DODIG-2024-069)

This management advisory provides the results of the DoD Office of Inspector General's audit. We previously provided copies of the draft management advisory and requested written comments on the recommendations and the advisory's public release. We considered comments from the Assistant Secretary of the Navy (Financial Management & Comptroller) in finalizing the advisory. These comments are included in the advisory.

The management advisory contains three recommendations that we consider resolved and open. The Assistant Secretary of the Navy (Financial Management & Comptroller) agreed with the recommendations presented in the management advisory.

Therefore, the recommendations remain open. As described in this advisory, we will close the recommendations when you provide us with adequate documentation showing that all agreed-upon actions to implement the recommendations are completed.

DoD Instruction 7650.03 requires that recommendations be resolved promptly. Therefore, please provide us within 30 days your response concerning specific actions in process or alternative corrective actions proposed on the recommendations. Send your response to either audfmr@dodig.mil if unclassified or rfunet@dodig.smil.mil if classified SECRET. For the resolved recommendations, please provide us documentation showing you have completed the agreed-upon actions. Please send your documentation for the resolved recommendations as a PDF to followup@dodig.mil.

If you have any questions, or would like to meet to discuss the audit, please contact me at [REDACTED]. We appreciate the cooperation and assistance received during the conduct of our audit, which resulted in this advisory.

FOR THE INSPECTOR GENERAL:

A handwritten signature in cursive script that reads "Lorin T. Venable".

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



The Navy's Over-Execution of Ukraine Supplemental Funds

We determined that the Navy over-executed its funding three times during FY 2022: once in the third quarter and twice in the fourth quarter. While the Navy had funds available to reverse the over-execution on these occasions, such funds may not be available in the future, which could result in a potential Antideficiency Act violation. Although the Navy has long-term plans to address this issue, the Navy should take prompt action to avoid over-execution.

Background

In 2022, the President signed four public laws that appropriated funds to the DoD in support of the efforts in Ukraine.¹ In response to these laws, the Office of Management and Budget (OMB) assigned Disaster Emergency Fund Code (DEFC) values to each of the laws to track the reporting and execution of Ukraine supplemental funds in the Government-wide Treasury Account Symbol Adjusted Trial Balance System (GTAS).² On March 16, 2022, 1 day after the first Ukraine Supplemental Act was enacted, the DoD issued guidance stating that the Advancing Analytics (Advana) platform will be the authoritative source for reporting the funds execution and costs related to Ukraine operations.

On January 4, 2023, the DoD OIG announced the “Audit of the DoD’s Execution of Funds to Assist Ukraine.” The objective of the audit is to determine whether the DoD used the Ukraine supplemental funds in accordance with Federal laws and DoD policies. The audit is ongoing however, we expect to issue the audit report by June 2024. The audit takes into consideration the first three laws, which appropriated a total of \$34.4 billion to the DoD. The scope of the audit includes transactions reported through Advana between January 1 and December 31, 2022, with DEFC values of 3, 6, and AAA, which indicate emergency supplemental funds the DoD executed to support Ukraine.

¹ Public Law 117-103, “Consolidated Appropriations Act, 2022,” Division N, Ukraine Supplemental Appropriations Act, 2022, Title III, “Department of Defense,” March 15, 2022 (P.L. 117-103); Public Law 117-128, “Additional Ukraine Supplemental Appropriations Act, 2022,” Title II, “Department of Defense,” May 21, 2022 (P.L. 117-128); Public Law 117-180, “Continuing Appropriations and Ukraine Supplemental Appropriations Act, 2023,” Division B Ukraine Supplemental Appropriations Act, 2023, Title I, “Department of Defense,” September 30, 2022 (P.L. 117-180); and Public Law 117-328, “Consolidated Appropriations Act, 2023,” Division M, Additional Ukraine Supplemental Appropriations Act, 2023, Title II, “Department Of Defense,” December 29, 2022 (P.L. 117-328). The President signed Public Law 117-328 on December 29, 2022. We did not include this Public Law in our review because the scope of our review is between January 1 and December 31, 2022, and Public Law 117-328 was signed only 2 days before the end of our audit scope. The focus of the audit is on the execution of Supplemental Funds for Ukraine, and the DoD did not have sufficient time to execute funds from Public Law 117-328 by December 31, 2022.

² Entities, including agencies, use the GTAS to provide proprietary financial reporting information and information about budget execution to the Department of the Treasury. The Treasury Department’s Fiscal Service uses the information submitted to GTAS to meet its requirements from the OMB and to compile the Financial Report of the U.S. Government. The planning, programming, budgeting and execution process describes the execution phase as an evaluation of the obligation and expenditure of funds and the DoD Regulation 7000.14-R, “DoD Financial Management Regulation,” volume 3, chapter 8, categorizes expenditures as disbursements.

While the audit focuses on the DoD’s execution of Ukraine supplemental funds and will make recommendations that may assist the DoD in executing future funding, this management advisory focuses specifically on the Navy’s execution of these funds. Through public laws, the Navy was appropriated \$1.7 billion in Ukraine supplemental funds that are in the scope of the audit. The Table provides a summary of the three public laws, assigned DEFC, and amounts appropriated to the Navy.

Table. Summary of the Ukraine Supplemental Appropriations Acts and Appropriated Funds

Public Law	Date of Enactment	DEFC Value	Navy Appropriation Value
P.L. 117-103	March 15, 2022	3	\$245,542,000
P.L. 117-128	May 21, 2022	6	984,066,500
P.L. 117-180	September 30, 2022	AAA	437,744,000
Total Amounts Within the Scope of the Audit			\$1,667,352,500

Source: Public Laws 117-103, 117-128, and 117-180; and Disaster and Emergency Funding Tracking Dashboard obtained from the OMB Max Website.

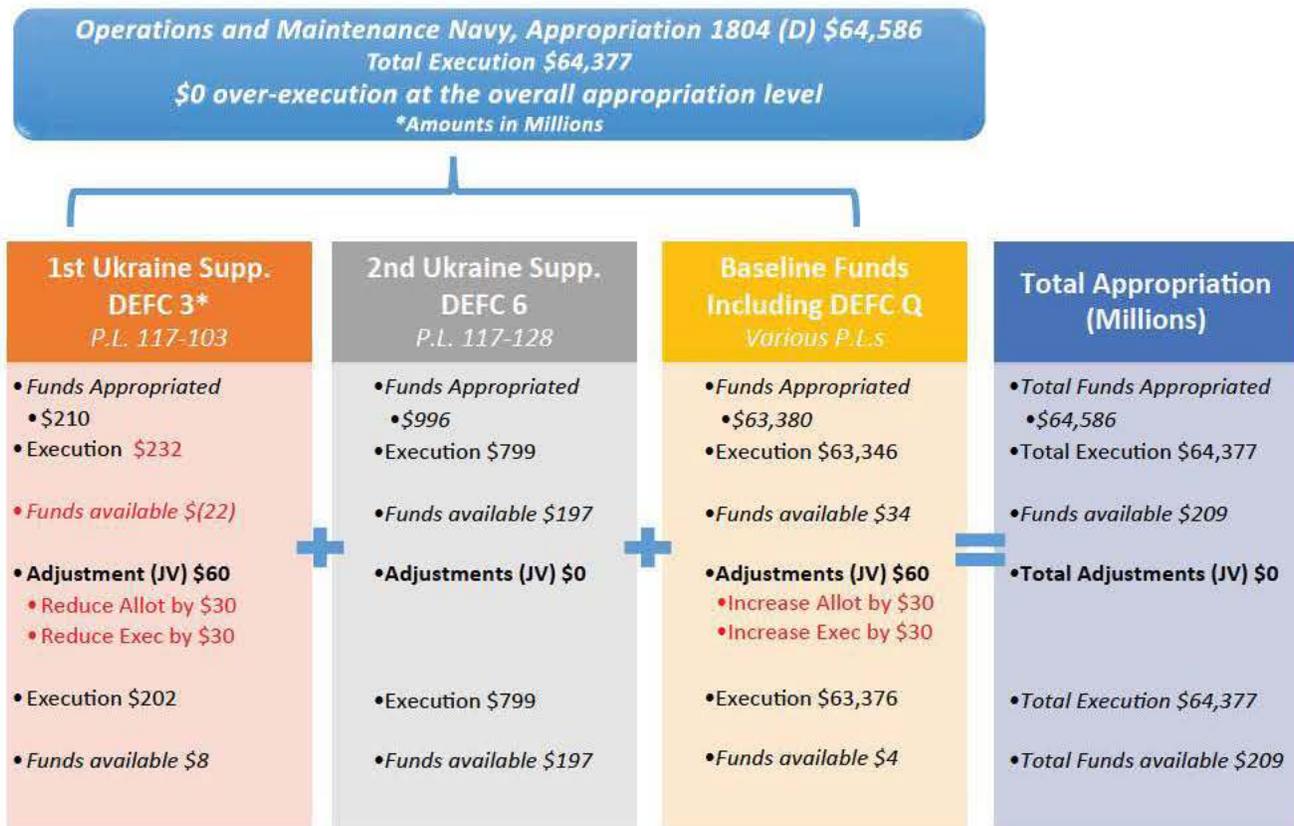
The DoD OIG reviewed disbursements from the \$1.7 billion in Ukraine supplemental funds appropriated to the Navy. These disbursements included journal voucher transactions that Defense Finance and Accounting Service (DFAS) personnel created to address the Navy’s over-execution of the Ukraine supplemental funds in the Navy Standard Accounting, Budgeting, and Reporting System (NSABRS). We identified that during FY 2022 reporting, DFAS personnel processed three journal vouchers: one in the third quarter, totaling \$337.6 million; and two in the fourth quarter, totaling \$61.3 million. The journal vouchers DFAS processed reduced the allotment and execution amounts in the Operations and Maintenance, Navy account (Navy O&M) of the Ukraine supplemental DEFC value 3 and increased the allotment and execution amounts in the Navy O&M account of the non-supplemental DEFC Q value (baseline funds).³

³ The Federal Account Symbols and Titles Book identifies the Operations and Maintenance Navy Appropriation, 1804, as a general fund account. The DoD Financial Management Regulation, volume 12, chapter 1, states general fund accounts record amounts appropriated by Congress for the general support of the government.

The DoD Financial Management Regulation volume 14, chapter 1, states an allotment is a subdivision of an apportionment that the head of an agency, or designee, makes to incur obligations within a prescribed amount.

To explain this process further, the Figure provides an illustration of the subdivision of funds within an appropriation and is an example of how the over-execution can be absorbed within the normal annual budget. The DEFC Q value in the Figure represents the funds appropriated within the annual budget.

Figure. Example of Subdivision of Funds for Ukraine



LEGEND

- DEFC Disaster Emergency Fund Code
- JV Journal Voucher
- P.L. Public Law

* The funds available is a calculation of the funds appropriated less the execution. The funding and execution in the figure are for FY 2022 with a 1-year period of availability.

Note: The amount in parenthesis represents a negative number.

Source: GTAS Trial Balance provided by the Office of the Under Secretary of Defense (Comptroller) and Disaster and Emergency Funding Tracking Dashboard obtained from the OMB MAX Website.

According to Navy personnel, the NSABRS lacked automated controls to provide the proper visibility of funds to prevent the over-execution of funds. Although DFAS personnel processed the journal vouchers to realign the funds, the Navy’s accounting system still reflected the over-execution, and the system did not have appropriate automated controls in place to stop the over-execution from happening in the future. The lack of automated controls increases the risk of a potential Antideficiency Act violation.

NSABRS Allowed Over-Execution of Ukraine Supplemental Funds

The Navy over-executed its allotment of Ukraine assistance funds, causing DFAS personnel to process three journal vouchers, totaling \$398.9 million, to address the over-execution.

The over-execution of the funds occurred because the Navy has not addressed a long-standing recommendation that it received as a result of the Navy's FY 2018 financial statement audit. This recommendation related to the NSABRS system's limitations and inability to prevent the over-execution of funds in the DEFC values.

The Navy over-executed its allotment of Ukraine assistance funds because of the NSABRS system's limitations and inability to prevent the over-execution of funds in the DEFC values.

By completing journal vouchers to retroactively account for the over-execution of funds instead of implementing preventive controls to stop the over-execution from happening, the Navy has not adequately addressed previous audit findings and recommendations, and over-execution of funds could occur again. Therefore, the Navy is at an increased risk of committing an Antideficiency Act violation.

Journal Vouchers Addressing the Navy's Over-Execution of Ukraine Supplemental Funds

Due to the reporting requirement issued by the Department of the Treasury (Treasury), DFAS personnel could not submit the accounting data for this specific Treasury Appropriation Fund Symbol for fiscal yearend until DFAS resolved the Navy's over-execution of the Ukraine supplemental funds.⁴ DFAS personnel processed a journal voucher in the Defense Departmental Reporting System-Budgetary (DDRS-B), totaling \$337.6 million, on July 14, 2022, for the June 2022 reporting period. The Navy initiated adjustments in the accounting system, NSABRS, after DFAS processed the journal voucher for the June 2022 reporting period in DoD's financial reporting system, DDRS-B, thereby correcting the June 2022 transaction.

Then, on October 10, 2022, DFAS personnel processed two additional journal vouchers in DDRS-B, totaling \$61.3 million for the September 2022 reporting period. However, the Navy has not provided support that a correction has taken place in NSABRS for the September 2022 reporting period. Therefore, the Assistant Secretary of the Navy (Financial Management and Comptroller) should develop and implement corrective actions to address the over-execution that occurred in NSABRS for the September 2022 reporting period.

⁴ According to the U.S. Department of the Treasury website, data validations verify the integrity of the data file and validate that all attributes are submitted according to the U.S. Standard General ledger (USSGL) attributes, domain value rules, and exceptions. Accounting edits ensure the rules of accounting are followed. The submitter of the data will not be able to certify data until all data validations and required edit corrections have been passed.

The OMB manages and approves apportionments at the treasury appropriation fund symbol level. Each level comprises a treasury departmental index, a period of availability to incur new obligations, and a treasury account symbol according to the DoD Financial Management Regulation, volume 3, chapter 2.

After processing the journal voucher in July 2022, DFAS personnel contacted the Navy to inquire as to whether there were automated controls in place in the NSABRS accounting system to prevent the over-execution of funds in the DEFC values. DFAS personnel provided the DoD OIG documentation in which Navy personnel stated that NSABRS did not have the functionality to issue funds to the DEFC values. Without this system functionality, the Navy could not implement automated controls to prevent the over-execution of Ukraine supplemental funding in the system.

The Navy’s Manual Internal Controls Identified the Over-Execution of Ukraine Supplemental Funds

Navy personnel stated that their manual internal controls identified the over-execution of funds that led to the journal voucher adjustment in July 2022 to correct the error.

On July 7, 2022, the Navy identified an over-execution of funds. Specifically, Navy personnel stated that they obligated more funds than they received in the Ukraine supplemental funding DEFC value 3. As of July 28, 2022, the Navy had not resolved the over-execution of funds in NSABRS. This led to the Navy manually adjusting reports to Congress to reflect the correct Ukraine execution amounts, although Advana, the DoD’s authoritative source for reporting Ukraine execution, did not reflect these amounts.

While the Navy worked to correct the error in the accounting system, NSABRS, DFAS processed a journal voucher adjustment in the DoD’s financial reporting system, DDRS-B, to retroactively account for the over-execution. This adjustment enabled DFAS to report the appropriation data to the Treasury on behalf of the Navy. This journal voucher adjustment moved the over-execution from the DEFC value 3, first Ukraine supplemental, to the DEFC value Q, baseline funds.

On August 30, 2022, Navy personnel stated that they corrected the over-execution that they identified on July 7, 2022. However, DFAS reported additional over-execution in October 2022 for September 2022 reporting. Therefore, the Navy did not have adequate internal controls to prevent the over-execution of funds from reoccurring. Instead, the Navy’s manual internal controls focused on identifying the over-execution after it occurred, rather than preventing it from occurring.

The Navy did not have adequate internal controls to prevent the over-execution of funds from reoccurring.

NSABRS Prior Notice of Finding and Recommendation

Since FY 2018, the Navy has had a long-standing notice of finding and recommendation related to the lack of management oversight to correct abnormal balances in a timely manner, specifically balances within NSABRS.⁵ The Navy's Corrective Action Plan acknowledges that NSABRS does not have the appropriate controls in place to properly record and support certain financial transactions.

The Navy plans to implement controls and remediate other findings by replacing NSABRS with the Navy Enterprise Resource Planning (ERP) in FY 2026.

The Navy plans to implement controls and remediate other findings by replacing NSABRS with the Navy Enterprise Resource Planning (ERP) system because, according to Navy personnel, the Navy ERP will have the appropriate controls in place. However, the Navy does not plan to complete the transition from NSABRS to Navy ERP until FY 2026. Until the Navy migrates to the Navy ERP,

the Assistant Secretary of the Navy (Financial Management and Comptroller), in coordination with the Department of Navy Chief Information Officer, should develop and implement effective internal controls to prevent the over-execution of funds in NSABRS.

Navy Budget Execution Oversight

The Assistant Secretary of the Navy (Financial Management and Comptroller) Office of Budget (FMB) responsibilities include the continual review of program execution, as well as ensuring the accurate input for financial reporting to Congress in a timely manner. FMB provided contingency operations guidance dated FY 2009. This guidance did not address specific NSABRS processes, including the monitoring of execution of supplemental funds.

When asked what controls the Navy had put in place since the over-execution of funds occurred, FMB personnel stated that they were working on a standard operating procedure and communicating more with the Navy Budget Submitting Offices (BSOs) to ensure that everyone was aware when a new DEFC was established. On April 18, 2023, the FMB provided its working draft procedure titled, "Department of the Navy Contingency Reporting." This draft procedure states that the FMB will review automated contingency reporting data monthly to ensure the Navy coded contingency funds correctly at the appropriation and line item by BSO. It further states that if the FMB identifies a discrepancy, then FMB personnel will coordinate with the respective BSO to validate coding to ensure the Navy reported the correct contingency code to Advana.

⁵ A general ledger balance is abnormal when the reported balance does not comply with the normal debit or credit balance established in the DoD Standard Reporting Chart of Accounts according to DoD Financial Management Regulation, volume 6a, chapter 2.

The draft procedure did not include a control to ensure the BSOs did not over-execute their allocations; however, FMB personnel later explained that the BSOs must reconcile manually. For NSABRS activities, cost allocations require manual reconciliations to ensure Ukraine-related costs do not exceed the Ukraine funding allocations. On October 24, 2023, we received an updated version of the guidance “Department of the Navy Contingency Reporting.” However, after review of this guidance, we determined it still does not address the monitoring of budget execution of supplemental funds for NSABRS. While this guidance requires the Navy to validate and ensure the contingency fund’s coding is correct, it does not require a reconciliation or other preventive control to ensure the Navy does not over-execute its allocations. We recommend that the Navy implement a preventive control, such as an additional review, to ensure that it is using the right codes and that it does not over-execute its allocations. The Assistant Secretary of the Navy (Financial Management and Comptroller) should update the Navy Financial Management and Budget procedure documentation to address the specific controls put in place to monitor and prevent over-execution of supplemental funding in NSABRS.

Conclusion

Due to the lack of automated controls in NSABRS and the lack of effective manual internal controls, the Navy over-executed the Ukraine supplemental funds on three occasions. Until the Navy fully implements a system that has automated controls in place or implements effective manual preventive internal controls, there is a risk this condition will continue. Furthermore, without automated controls

Without automated controls or effective manual controls, the Navy does not have the proper visibility of the execution of funds to prevent the over-execution of funds or a potential Antideficiency Act violation.

or effective manual controls, the Navy does not have the proper visibility of the execution of funds to prevent the over-execution of funds or a potential Antideficiency Act violation. This lack of controls also increases the likelihood that the Navy’s reporting of its execution of the Ukraine supplemental funds will be unreliable. Additionally, because of the over-execution of funds described in this management advisory, the Navy provided DoD leadership and Congress with inaccurate execution information for Ukraine supplemental funds.

Recommendations, Management Comments, and Our Response

Recommendation 1

We recommend that the Assistant Secretary of the Navy (Financial Management & Comptroller):

- a. Develop and implement corrective actions to address the over-execution that occurred in the Navy Standard Accounting, Budgeting, and Reporting System for the September 2022 reporting period.**
- b. Update the Navy Financial Management and Budget procedure documentation to address the specific controls put in place to monitor and prevent over-execution of supplemental funding in the Navy Standard Accounting, Budgeting, and Reporting System.**

Recommendation 2

We recommend that, until the Navy completes its migration to the Navy Enterprise Resource Planning system, the Assistant Secretary of the Navy (Financial Management and Comptroller), in coordination with the Department of the Navy Chief Information Officer, develop and implement effective internal controls to prevent over-execution in the Navy Standard Accounting, Budgeting, and Reporting System.

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

The Assistant Secretary of the Navy (Financial Management & Comptroller) (ASN [FM&C]) agreed with the recommendations stating that the Department of Navy (DON) acknowledges the weaknesses identified and created because of the lack of automated controls. According to the ASN (FM&C) the DON is in the process of developing these controls as part of its financial management system migrations and roadmap to reach an audit opinion in 2028. The ASN (FM&C) also stated that the DON has implemented rigorous manual controls, both preventive and detective, and it was these controls that identified the previous coding accounting errors, which the DON took action to correct. The ASN (FM&C) added that the DON plans to complete the migrations to the Navy ERP system by the end of FY 2026.

Furthermore, the ASN (FM&C) stated that the DON updated its Contingency Reporting Standard Operating Procedure in September 2023, formalizing the lessons in manual controls they learned during the previous Ukraine supplementals. The next update of the standard operating procedure, scheduled for September 2024, will incorporate any other improvements, including those identified in this management advisory.

Finally, the ASN (FM&C) indicated that Navy personnel coordinated with DFAS for the September 2022 period to correct the appearance of over-execution, ensuring the Navy's accounting is correct.

Our Response

Comments from the ASN (FM&C) addressed the specifics of the recommendations; therefore, the recommendations are resolved but will remain open. We will close the recommendations once we verify that the DON:

- provides documentation demonstrating the sunset of NSABRS and the implementation of Navy ERP;
- provides documentation demonstrating that NSABRS reflects the correction of the over-executed funds; specifically, this documentation should demonstrate that the DON corrected the funds executed under the incorrect DEFC value in NSABRS and moved the funds to the appropriate DEFC value; and
- has updated the Contingency Reporting Standard Operating Procedure with preventive controls that include:
 - monitoring the BSOs' awareness of the use of the DEFC values,
 - formally communicating the implementation of the DEFC value codes with the BSOs,
 - documenting the amount of time the BSOs have to implement the change of the DEFC value codes, and
 - reviewing the execution data to ensure that the BSOs use the correct codes and do not over-execute their allocations.

Management Comments

Assistant Secretary of the Navy (Financial Management & Comptroller)



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

FEB 22 2024

From: Assistant Secretary of the Navy (Financial Management and Comptroller)
To: U.S. Department of Defense Inspector General

Subj: DEPARTMENT OF THE NAVY RESPONSE TO THE DRAFT MANAGEMENT ADVISORY REGARDING THE NAVY'S EXECUTION OF FUNDS TO ASSIST UKRAINE (PROJECT NUMBER D2023-D000FL-0046.000)

The Department of the Navy (DON) appreciates the opportunity to review and comment on the management advisory regarding Navy's execution of funds to assist Ukraine. The DON is committed to the proper stewardship of taxpayer funds and values any opportunity to improve how we do that while achieving our mission.

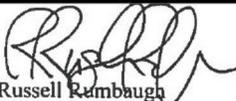
The DON acknowledges the weaknesses identified and created because of a lack of automated controls. We already are in the process of developing these controls as part of our financial management system migrations and roadmap to reach an audit opinion in 2028. In the meantime, the DON has implemented rigorous manual controls, both preventive and detective. It is these controls that identified the previous coding accounting errors, that DoDIG investigated, which the DON took action to correct.

As the management advisory suggests, the most important step to achieve automatic controls is migrating all commands to the Navy Enterprise Resource Planning system. The DON is on plan to complete these migrations by the end of FY2026 having just completed the migration of the Bureau of Personnel on schedule.

In the interim, we updated our DON Contingency Reporting Standard Operating Procedure (SOP) in September 2023, formalizing those lessons in manual controls we learned during the previous Ukraine supplementals. Our next update scheduled for September of 2024 will incorporate any other improvements, including those identified in the management advisory.

Finally, we posted a journal voucher to Defense Financial Accounting Service for the September 2022 period to correct the appearance of over-execution ensuring our accounting is correct.

The DON is committed to modernizing its financial management systems and practices and appreciates the management advisory's recommendations. If you have any questions on the above, my point of contact for this engagement is [REDACTED] Branch Head for Execution & Contingency Operations, Deputy Assistant Secretary of the Navy for Budget (FMB-11). He can be reached at [REDACTED]


Russell Rumbaugh

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U.S. DEPARTMENT OF DEFENSE

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