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OFFICE OF THE INSPECTOR GENERAL OF THE INTELLIGENCE COMMUNITY  
WASHINGTON, DC 20511

12 January 2012

The Honorable Dianne Feinstein  
Chairman  
Senate Select Committee on Intelligence  
United States Senate  
Washington, DC 20510

The Honorable Saxby Chambliss  
Vice Chairman  
Senate Select Committee on Intelligence  
United States Senate  
Washington, DC 20510

**SUBJECT:** (U) 2011 Congressionally Directed Action (CDA) to  
Assess the Auditability Plans for CIA, DIA, NSA, NGA, and ODNI  
(ICIG-AUD-2011-005)

Dear Madam Chairman and Vice Chairman Chambliss:

~~(S//NF)~~ The Classified Annex to the Intelligence Authorization Act for Fiscal Year (FY) 2011, pages 18-19, states:

Therefore, (b)(1) [REDACTED] the funds authorized in this Act each for the CCP, CIAP, CMA, GDIP, and NGP may not be obligated until the DNI certifies in writing to the Intelligence Committees that:

(1) the heads of the Central Intelligence Agency (CIA), Defense Intelligence Agency (DIA), National Security Agency (NSA), National Geospatial-Intelligence Agency (NGA), and the Office of the Director

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Classified By: (b)(3) [REDACTED]  
Reason: 1.4(c)  
Declassify On: 20370111  
Derived From: ODNI FIN S-08

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of National Intelligence (ODNI) are committed to achieving an unqualified opinion on the financial statements of these agencies by an Independent Auditor within the time frame of the Future Year Intelligence Plan for FY 2011;

(2) he and the heads of these agencies are committed to assigning the management priority, leadership, and resources necessary to accomplish the above result;

(3) he has directed, in concert with the heads of these intelligence agencies, the construction of a practical plan, with major milestones, for achieving this result, to be submitted to Congress no later than 90 days after enactment of this act; and

(4) he has directed the ODNI Inspector General or an Independent Public Accounting firm to conduct an assessment as to the plan's soundness and likely success, along with any recommended improvements or changes to the plan, to be submitted to the Intelligence Committees 120 days after submission of the above plan.<sup>1</sup>

(U//~~FOUO~~) As outlined above, we conducted an assessment of the auditability plans submitted by the CIA, DIA, NSA, NGA, and ODNI to Congress in September 2011. We were charged with assessing the auditability plans' soundness and likely success, along with any recommended improvements or changes to the plans. Each of the entities submitted Corrective Action Plan(s) (CAP) to address all of the known material weaknesses.<sup>2</sup> The scope of this assessment was limited to a review of the CAPs submitted to Congress. We did not conduct a comprehensive audit of the data underlying the CAPs.

### **(U) Assessment Methodology**

(U//~~FOUO~~) A Government Accountability Office (GAO) review of federal financial statements concluded that, for entities to receive an unqualified opinion, it is vital that financial improvement and audit readiness plans are of high-quality, detailed, and effectively implemented at all levels of the

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<sup>1</sup> (U//~~FOUO~~) Classified Annex, pg. 18-19, Intelligence Authorization Act for FY 2011, P.L. 112-18, 125 STAT. 223 (June 8, 2011).

<sup>2</sup> (U) Corrective Action Plans (CAPs) are the lowest level of work break down structure tasks to remediate identified material weaknesses.

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organization.<sup>3</sup> This GAO review also stated that in the long-term, to achieve financial statement auditability and improve financial management information, it is important to establish sound strategic planning and effective implementation across the enterprise, and at all levels, with efforts that can be sustained through leadership transitions. We considered GAO's federal financial statements review as a framework for our assessment.

(U//~~FOUO~~) Using the GAO framework to address the objective of this assessment, we coordinated with the Offices of Inspectors General (OIG) of the respective entities identified in the Classified Annex on the assessment methodology. The OIGs also assisted us by identifying subject matter experts at their respective agencies and provided relevant documentation. We obtained current lists of agencies' known internal control material weaknesses; reconciled the weaknesses to the respective CAPs; and verified the adherence to the Future Year Intelligence Plan for FY 2011 time frame identified in the Classified Annex. Specifically, we assessed the submitted CAPs for each of the five entities to determine how the work break down structures were designed; we determined how the CAPs task durations and work estimates were developed; we looked for task dependencies and linkages between CAPs; we evaluated the appropriateness of how resources were assigned to complete the tasks identified in the CAPs; and we analyzed how all of the tasks connect together and put the agencies in a position to achieve an unqualified opinion by FY 2015.<sup>4</sup> We also reviewed the five entities' financial reports, reviewed auditability documents provided by the Associate Director of National Intelligence/Chief Financial Officer (ADNI/CFO), and interviewed the designated representatives from the entities responsible for their respective CAPs. We conducted our assessment between 28 September 2011 and 20 December 2011.

(U//~~FOUO~~) For this assessment, we evaluated the timelines presented in the CAPs against the Classified Annex's requirement that the identified entities achieve an unqualified opinion on their financial statements by an Independent Auditor within the timeframe of the Future Year Intelligence Plan for FY 2011. We interpreted this timeframe to require entities to receive an unqualified

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<sup>3</sup> (U) *GAO-11-363T: Fiscal Year 2010 U.S. Government Financial Statements*. March 9, 2011 (Page 7).

<sup>4</sup> (U) A work break down structure (WBS) is a hierarchical structure that is used to organize tasks for reporting schedules. A WBS typically contains phases (a group of related tasks that completes a major step in the project), tasks (an activity that has a beginning and an end) and milestones (a reference point marking a major event in a project used to monitor overall progress).

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opinion on their audited financial statements for FY 2015. The ODNI Chief Management Officer's (CMO) letter to the DNI stated a commitment to achieve an unqualified opinion on their FY 2015 financial statements. However, the heads of CIA, DIA, NSA, and NGA sent letters to the DNI in July 2011 that stated their commitment to achieve an unqualified opinion on their FY 2016 statements.

### **(U) Assessment Results**

(U//~~FOUO~~) We have no reasonable assurance that any of the five entities will be able to achieve an unqualified opinion on their FY 2015 or FY 2016 financial statements. Contrary to the Congressional request for the construction of a practical plan, with major milestones, the five entities provided Congress with a disparate collection of CAPs that were neither cohesive nor provided a clear roadmap as to how the five entities were going to achieve an unqualified opinion. For instance, the CAPs did not address required resources, identification of which resources are going to perform the tasks, or outline the critical paths that would impact their ability to reach their end goal.

(U//~~FOUO~~) We identified three categories of auditability concerns that we believe impact the entities' ability to obtain an unqualified audit opinion by FY 2015: 1) overall deficiencies as to how the CAPs were constructed and populated, 2) undiscovered material weaknesses that may be identified during independent financial systems and statements audits, and 3) dependencies on external actions. The following Table contains our assessment results.

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~~(U//FOUO)~~ Table 1 – Common Auditability Concerns

Corrective Action Plan Deficiencies	CIA	DIA	NSA	NGA	ODNI
Does not identify resources required to accomplish all phases/tasks	X	X	X	X	X
Does not identify a critical path for monitoring milestones and the impact on the completion of other tasks	X	X	X	X	X
Does not consistently apply or contain actual finish dates to monitor slippages	X	X	X	X	X
Does not contain percentage of completion to monitor progress for each task		X	X	X	
Does not identify the responsible person for performing each task		X	X	X	X
Does not list remediation actions planned for tasks that are behind schedule and/or at risk of missing the due date, or other comments as required		X	X	X	X
Is incomplete and is in the process of being revised	X	X		X	
<b>Undiscovered Material Weaknesses</b>					
Has not had a prior independent audit of the financial systems to identify control weaknesses		X		X	X
Has not had a recent independent audit of their financial statements in accordance with Government Auditing Standards and is relying on a single balance sheet or mock <sup>5</sup> audit in FY 2014 or FY 2015		X	X		
<b>External Dependencies</b>					
Fund Balance with Treasury audit impediment resolution impacted by potential legislative action <sup>6</sup>		X	X	X	
Auditability is dependent upon: (1) the successful and timely transition to a new financial system or the addition of new modules to the core financial system; (2) reliance on service providers	X	X	X	X	X

(U) Source: OIG IC audit files

<sup>5</sup> (U) The purpose of a mock audit is to determine how well prepared an entity is for a full scope audit in accordance with generally accepted government auditing standards by an entity IG or an Independent Public Accountant.

<sup>6</sup> (U) Subsequent Event: On 3 January 2012, the President signed FY 2012 Intelligence Authorization Act. Section 433 of this Act authorizes the Secretary of Defense to transfer defense appropriations for activities of defense intelligence elements into an account or accounts established by the Secretary of the Treasury for receipt of such funds. When implemented, this may facilitate reconciliation of Fund Balance with Treasury for DIA, NSA, and NGA for future transactions. However, this legislation will not address resolution of past unreconciled amounts.

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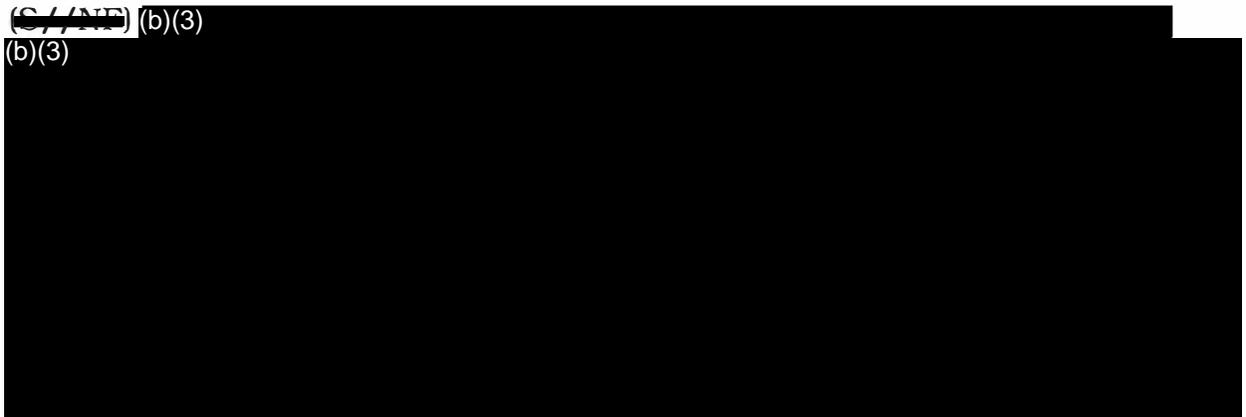
~~(U//FOUO)~~ Whereas the CAPs do provide major milestones for audit readiness and address known material weaknesses, the CAPs do not provide for strategic planning and lack project management elements, as identified in Table 1 that can assist in monitoring auditability progress and making necessary course corrections. Additionally, DIA and NSA are relying on a mock audit or a balance sheet audit strategy to reveal and address undiscovered material weaknesses one year prior to the goal of obtaining an unqualified opinion. Relying on a mock audit or a balance sheet audit strategy only one year prior to the goal of obtaining an unqualified opinion is problematic because these types of audits are limited in scope and do not provide sufficient time to identify and remediate material weaknesses. For example the CIA has not been able to obtain an unqualified opinion even after undergoing independent financial statement audits since 2004. Moreover, the entities' CAPs are based on assumptions that all external dependencies will be addressed timely in order for the entities to successfully execute specific actions. While individually these concerns may not prevent entities from obtaining an unqualified audit opinion, taken together these deficiencies, weaknesses and dependencies raise serious concerns that the proposed timelines may not be achieved.

~~(U//FOUO)~~ The current environment of shrinking federal budgets and competing priorities will require continued senior management support from the heads of the intelligence entities to ensure that financial managers receive the necessary support from the acquisition and logistics communities, and their entity as a whole, to improve the CAPs and develop a holistic auditability strategy. In addition to the common auditability concerns in Table 1, each entity has specific auditability issues that are described below.

## **(U) Entity Specific Auditability Concerns**

### **(U) Central Intelligence Agency**

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(U//~~FOUO~~) (b)(3) the CIA OIG's audit report on CIA's FY 2011 Financial Statements identifies three material departures from generally accepted accounting principles (GAAP). However, CIA management does not agree with two of the findings and recommendations and has reached an impasse that would prevent CIA from obtaining an unqualified audit opinion. One of the departures from GAAP has been reported each year since FY 2005.

**(U) Defense Intelligence Agency**

(U//~~FOUO~~) DIA provided an auditability strategy document to Congress to accompany the CAPs addressing material weaknesses with Fund Balance with Treasury, Accounts Payable/Inter-Governmental Transactions, Financial Statements, Financial Systems, and Property, Plant, & Equipment. The auditability strategy acknowledged that DIA has not fully programmed for dedicated audit readiness resources through FY 2013; and relies on year-of-execution funds reprogramming to obtain the necessary audit readiness support. DIA will add programmed audit readiness resources in the DIA's FY14 budget program build to obtain dedicated audit readiness resources into the future. In the current environment of shrinking federal resources and competing priorities, the required year-of-execution funds could be at risk and impact DIA's timeline of obtaining an unqualified opinion on DIA's financial statements.

(U//~~FOUO~~) DIA also acknowledged in the auditability strategy document that the DIA CAPs submitted to ODNI and Congress were not part of a comprehensive audit plan or strategy. The DIA strategy document also noted that the DIA CAPs were not yet complete or uniform; however the integrity and consistency of the DIA CAPs will improve as resources are applied to the

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auditability effort. The disclosure of the condition of the DIA CAPs, combined with the concerns identified in Table 1 and the lack of programmed dedicated resources until FY 2014, provides no reasonable assurance that DIA is in a position to achieve an unqualified opinion on its FY 2016 financial statements.

### **(U) National Security Agency**

(U//~~FOUO~~) In October 2007, NSA began using its current accounting system of record, the Financial Accounting Corporate Tracking System (FACTS). Yet, NSA is unable to reconcile the General Ledger to its Subsidiary Ledgers. NSA's inability to reconcile the ledgers impacts its Information Technology General and Application Control (ITGAC), Financial Reporting, and Budgetary remediation efforts, and produces cascading data integrity issues. The timeline for solving the ledgers' reconciliation impediment has been consistently delayed since 2007, and most recently was pushed back to September 2012. The ledgers' reconciliation becomes potentially more complex with the passage of time as more transactions are processed by FACTS. NSA's ability to achieve an unqualified audit opinion on its FY 2016 financial statements is impeded by the delays in reconciling the ledgers.

(U//~~FOUO~~) NSA regularly monitors the CAPs progress through quarterly Audit Committee meetings. The August 2011 meeting minutes reflect that a number of CAPs were experiencing completion date slippages. Examples include remediation efforts for cross-domain issues, accounts payable, accounts receivable, financial reporting, and budget. At the August meeting, it was also reported that these delays would not affect the overall auditability schedule. Because of the inherent dependencies of time, resources, and scope, we see a potential impact on the overall auditability schedule. If NSA does not meet the required timelines at the beginning of the plan, it becomes more difficult to bring the overall schedule back on track without the addition of more resources or modifications to the scope of activities. Furthermore, there is no reasonable assurance that NSA will be able to achieve an unqualified opinion on its FY 2016 financial statements because of the forecasted schedule completion timelines.

### **(U) National Geospatial-Intelligence Agency**

(U//~~FOUO~~) During our review of NGA's Statement of Assurance under the Federal Managers' Financial Integrity Act (FMFIA), dated 17 August 2011, we noted that NGA missed prior milestone dates for correcting material weaknesses. For example the property management correction milestone was

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missed and then changed from FY 2010 to FY 2011. The FY 2011 milestone was also missed and was changed to the 4th quarter of FY 2013. Additionally, the reliable financial reports target date has changed from FY 2011 to FY 2013. Furthermore, NGA's Annual Statement reported that they are only able to provide a qualified statement of reasonable assurance that NGA's internal controls meet the objectives of FMFIA over operations and financial reporting; and NGA is unable to provide assurance for the adequacy of Internal Controls over Financial Systems. NGA's history of not meeting auditability milestones and the auditability concerns listed in Table 1 provides us with no reasonable assurance that NGA will receive an unqualified opinion on its FY 2016 financial statements.

(U//~~FOUO~~) In addition, NGA is transitioning to a new core accounting system that is not scheduled to be fully operational until after FY 2012. NGA will continue to utilize the current payroll, travel, acquisition, and budget systems but will need to integrate these and other financial information feeder systems and/or data into the new core accounting system.<sup>7</sup> Changing an accounting system will likely create additional challenges in meeting NGA's auditability timelines. Other IC entities have undergone similar accounting system transitions and have not received an unqualified opinion within the timeframe NGA has outlined.

#### **(U) Office of the Director of National Intelligence**

(U//~~FOUO~~) The ODNI CAPs did not indicate the resources that would be required to achieve an unqualified opinion on the ODNI's financial statements. Without dedicated resources, there is no reasonable assurance that an unqualified opinion on the ODNI's FY 2015 financial statements will be achieved.

(U//~~FOUO~~) The ODNI's Mission Support Division (MSD) conducted a limited-scope assessment of the effectiveness of internal controls over financial reporting, which includes the safeguarding of assets and compliance with applicable laws and regulations as of 30 June 2011. Based on the results of

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<sup>7</sup> (U//~~FOUO~~) The Department of Defense (DoD) FY 2010 Agency Financial Report states that the Department is noncompliant with the Federal Financial Management Improvement Act of 1996 requirements. DoD "continues to face financial management challenges that adversely affect its ability to provide reliable, timely, and useful financial and managerial data needed to support operating, budgeting, and policy decisions." These deficiencies in financial management and feeder systems prevent the DoD from collecting and reporting financial and performance information that is accurate, reliable, and timely. Due to NGA's reliance on DoD financial systems, these system limitations also apply to NGA.

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this assessment, the ODNI provided a qualified statement of assurance for ODNI's internal control over financial reporting. The MSD has identified four material weaknesses (Fund Balance with Treasury reconciliation, inability to timely record accruals and interagency information, untimely recording of transactions in the General Ledger, and improper payments) in the internal controls over financial reporting. However, because MSD's assessment was limited in scope, other unknown material weaknesses might exist. The ODNI will need to conduct a complete assessment and resolve the four material weaknesses in order to be positioned to achieve an unqualified opinion on its FY 2015 financial statements.

### **(U) Recommended Improvements**

(U//~~FOUO~~) While the five entities' financial statements may achieve auditability, there is no reasonable assurance that the execution of these CAPs will result in an unqualified opinion on their FY 2015 or FY 2016 financial statements. Whereas the CAPs do provide major milestones for audit readiness and address all known material weaknesses, they do not provide for strategic planning that can be sustained through leadership transitions. We recommend that the five entities develop an overarching audit readiness strategy document to better inform senior entity leadership and external stakeholders of the progress toward and the amount of effort and resources needed to achieve an unqualified opinion. This document should describe and link the CAPs, address internal and external dependencies, and identify participation requirements and risks to success.

(U//~~FOUO~~) To improve these entities' chances of receiving an unqualified opinion, senior management of the five entities should address the auditability concerns described in Table 1. For example, the entities should create a resource planning document that identifies the required resources needed to perform the audit readiness tasks and the timeline for deploying these resources to achieve an unqualified opinion on the financial statements. Lastly, in a time of shrinking federal budgets and competing entity priorities, dedicated resources to execute auditability plans are essential to achieve an unqualified opinion. Therefore, senior management should certify that audit readiness resources (i.e., funds and personnel) will be requested and if obtained, will be protected from being reallocated for other purposes.

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(U) If you have any questions regarding this CDA response, please contact me or my Assistant Inspector General for Audit, (b)(3) at (b)(3).

Sincerely,

A handwritten signature in cursive script, appearing to read "I. Charles McCullough, III". The signature is written in black ink on a white background.

I. Charles McCullough, III  
Inspector General of the Intelligence Community

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