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**(U) INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS,
REGULATIONS, CONTRACTS, AND GRANT AGREEMENTS**

(U) To the Director of the National Reconnaissance Office and
the Inspector General of the National Reconnaissance Office:

(U) We have audited the financial statements of the National Reconnaissance Office (NRO) as of and for the year ended September 30, 2015, and we have issued our report thereon dated November 13, 2015. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*.

(U) Compliance and Other Matters

(U) As part of obtaining reasonable assurance about whether the NRO's financial statements are free from material misstatement, we performed tests of its compliance with provisions of applicable laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, as well as provisions referred to in Section 803(a) of the Federal Financial Management Improvement Act of 1996 (FFMIA). We limited our tests of compliance to these provisions and did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the NRO. Providing an opinion on compliance with those provisions was not an objective of our audit; accordingly, we do not express such an opinion. The results of our tests, exclusive of those related to FFMIA, disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

(U) The results of our tests of compliance with FFMIA disclosed that the NRO's financial management systems did not comply substantially with the federal financial management system's requirements described in the accompanying Schedule of Findings.

(U) The NRO's Response to Findings

(U) The NRO's response to the findings identified in our audit is described in a separate memorandum attached to this report. The NRO's response was not subjected to the auditing procedures applied in our audit of the financial statements; accordingly, we do not express an opinion on it.

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(U) Purpose of this Report

(U) The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 15-02 in considering the entity's compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Kearney & Company".

Alexandria, Virginia
November 13, 2015

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(U) Schedule of Findings

(U//~~FOUO~~) Noncompliance and Other Matters

I. (U//~~FOUO~~) FFMIA Noncompliance (Repeat Condition)

(U//~~FOUO~~) Under the Federal Financial Management Improvement Act of 1996 (FFMIA), we are required to report whether the National Reconnaissance Office's (NRO) financial management systems substantially comply with federal financial management system requirements, applicable federal accounting standards, and the United States Standard General Ledger at the transaction level. The results of our tests of compliance with FFMIA noted certain instances, as described below, in which the NRO financial management systems and related controls did not substantially comply with certain federal financial management system requirements.

(U) Federal Financial Management System Requirements

(U//~~FOUO~~) The NRO has not implemented and enforced systematic financial management controls to ensure substantial compliance with FFMIA. The NRO's ability to meet federal financial management system security requirements to minimize risk was hindered by the following limitations in systems and processes:

- (U//~~FOUO~~) As noted in the Independent Auditor's Report on Internal Controls Over Financial Reporting, deficiencies exist in the NRO account management processes for key financial applications, [redacted] In addition, adequate segregation of duties was not fully maintained in certain financial systems
- (U//~~FOUO~~) [redacted]¹ which is required by the Federal Information Security Modernization Act of 2014.

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¹ (U) National Reconnaissance Office Fiscal Year 2015 Federal Information Security Modernization Act (Project Number 2015-006 A, 22 September 2015).

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