

**Audit**



**Report**

OFFICE OF THE INSPECTOR GENERAL

**PERSONAL SERVICES AND BENEFITS EXPENSES IN  
THE FY 1996 STATEMENT OF OPERATIONS AND  
CHANGES IN NET POSITION OF THE  
"OTHER DEFENSE ORGANIZATIONS"**

Report No. 98-028

December 2, 1997

**Department of Defense**

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**Acronyms**

CFO	Chief Financial Officers (Act)
DFAS	Defense Finance and Accounting Service
GLAC	General Ledger Account
OMB	Office of Management and Budget



**INSPECTOR GENERAL**  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
ARLINGTON, VIRGINIA 22202-2884



December 2, 1997

**MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING  
SERVICE  
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING  
SERVICE INDIANAPOLIS CENTER**

**SUBJECT: Audit Report on Personal Services and Benefits Expenses in the FY 1996  
Statement of Operations and Changes in Net Position of the "Other  
Defense Organizations" (Report No. 98-028)**

We are providing this report for your information and use. This audit was performed in response to the Chief Financial Officers Act of 1990 and the Federal Financial Management Act of 1994. We considered management comments on a draft of this report in preparing the final report.

Comments on the draft of this report conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are required.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Charles J. Richardson, Audit Program Director, at (703) 604-9582 (DSN 664-9582) or Ms. Sandra Fissel, Audit Project Manager, at (703) 604-9595 (DSN 664-9595). See Appendix F for the report distribution. The audit team members are listed inside the back cover.

David K. Steensma  
Deputy Assistant Inspector General  
for Auditing

## Office of the Inspector General, DoD

Report No. 98-028  
(Project No. 7RF-2010.00)

December 2, 1997

### Personal Services and Benefits Expenses in the FY 1996 Statement of Operations and Changes in Net Position of the “Other Defense Organizations”

#### Executive Summary

**Introduction.** We performed the audit in response to the requirements 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). Public Law 103-576 requires DoD and other Government agencies to prepare consolidated financial statements for FY 1996 and each succeeding year. The Defense Finance and Accounting Service (DFAS) Indianapolis Center is responsible for preparing the Chief Financial Officer's financial statement for the Department 97\* appropriations, beginning in FY 1996. To meet that requirement, the Deputy Director for Accounting Operations, DFAS Indianapolis Center, consolidates the financial information received from offices providing accounting support to the Defense organizations and prepares the financial statement for the “Other Defense Organizations,” a segment of the DoD consolidated financial statement. During FY 1996, the Defense organizations were appropriated \$39 billion, and their financial statement showed operating expenses of \$40.5 billion, of which \$15.1 billion was for personal services and benefits. This report is one in a series of reports that will address payroll related issues and the effect of noncompliant payroll actions on FYs 1996 and 1997 financial statements.

**Audit Objectives.** The overall audit objective was to assess compliance with laws and regulations applicable to the distribution of civilian payroll and related expenditures in preparation of Defense agencies' FYs 1996 and 1997 financial statements, management controls, and the effect of any noncompliant payroll actions on the FY 1996 financial statement. Specifically, we reviewed the DoD Chief Financial Officers Other Defense Organizations Statement of Operations and Changes in Net Position for the year ended September 30, 1996, to determine whether the payroll and related expenditures data that the DFAS Indianapolis Center reported on the financial statement were consistent with the data that the Defense agencies reported to the DFAS Indianapolis Center. We did not review the DFAS Indianapolis Center management controls as they applied to the audit objectives; however, a review of the management controls was conducted as part of Inspector General, DoD, Report No. 97-155, “Internal Controls and Compliance with Laws and Regulations for the FY 1996 Financial Statements of the ‘Other Defense Organizations’ Receiving Department 97 Appropriations,” June 11, 1997.

**Audit Results.** The DoD Chief Financial Officers Other Defense Organizations Statement of Operations and Changes in Net Position for the year ended September 30,

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\*Department 97 appropriations include primarily general funds, but also include some revolving funds, trust funds, and some small special funds, which are appropriations specifically allocated to Defense organizations and Military Departments.

1996, overstated personal services and benefits expenses by \$8 billion. As a result, the operating expense portion of the DoD Chief Financial Officer's Other Defense Organizations Statement of Operations and Changes in Net Position could not be relied upon to accurately present personal services and benefits expenses for FY 1996. See Part I for a discussion of the audit results.

**Summary of Recommendation.** We recommend issuing additional instructions requiring the individual reporting of operating expenses.

**Management Comments.** The Director, Defense Finance and Accounting Service Indianapolis Center, concurred with the recommendation and issued additional instructions emphasizing the requirements used for detailed general ledgers to identify specific transactions. The additional instructions specifically precluded the use of summary accounts. The action was completed August 11, 1997. See Part I for a complete discussion of the management comments and Part III for the complete text of the management comments.

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## **Part I - Audit Results**

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## Audit Background

**Requirements for Financial Statements.** The Chief Financial Officers (CFO) Act of 1990, Public Law 101-576, requires executive departments and agencies to prepare financial statements for each of their trust funds, revolving funds, and commercial activities. The CFO Act also requires the Inspectors General to audit or arrange for the audit of all financial statements prepared under the CFO Act. The resulting audit reports must include a report on the adequacy of internal controls of the reporting entity and a report on the compliance with laws and regulations that could have a material effect on the financial statements. The CFO Act, as amended by the Federal Financial Management Act of 1994 (Public Law 103-356), requires DoD and other Government agencies to prepare consolidated financial statements for FY 1996 and each succeeding year.

The consolidated DoD financial statement for FY 1996 includes the financial information for a reporting entity entitled "Other Defense Organizations." The financial statement for "Other Defense Organizations" includes the financial information for various Defense organizations that received Department 97\* appropriations. In FY 1996, 35 Defense organizations were appropriated \$39 billion of Department 97 funds to perform their missions and functions.

**Financial Reports.** The Defense Finance and Accounting Service (DFAS) Indianapolis Center provides finance and accounting support to all DoD organizations to include the Defense agencies. The support includes maintaining accounting records and preparing financial statements from general ledger records and status of appropriation financial data submitted by the accounting offices that support the Defense organizations. The DFAS Indianapolis Center is responsible for compiling the financial information submitted on behalf of the "Other Defense Organizations." The total of operating expenses are reported on the DoD CFO Other Defense Organizations Statement of Operations and Changes in Net Position (hereafter referred to as the Statement of Operations) and by object class in Note 23, Program or Operating Expenses. Object classes are defined by the Office of Management and Budget (OMB) and are used to report obligations and expenditures according to the nature of the services or articles procured. The FY 1996 Statement of Operations prepared by the DFAS Indianapolis Center reports that the "Other Defense Organizations" had operating expenses of \$40.5 billion, of which \$15.1 billion was for object class expenses defined as personal services and benefits.

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\*Department 97 appropriations include primarily general funds, but also include some revolving funds, trust funds, and some small special funds, which are appropriations specifically allocated to Defense organizations and Military Departments.

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## Audit Objectives

The overall audit objective was to assess compliance with laws and regulations applicable to the distribution of civilian payroll and related expenditures in preparation of Defense agencies' FYs 1996 and 1997 financial statements, management controls, and the effect of any noncompliant payroll actions on the FY 1996 financial statement. Specifically, we reviewed the Statement of Operations for the year ended September 30, 1996, to determine whether the payroll and related expenditures data that the DFAS Indianapolis Center reported on the financial statement was consistent with the data that the Defense agencies reported to the DFAS Indianapolis Center. We did not review the DFAS Indianapolis Center management controls as they applied to the audit objectives; however, a review of the management controls was conducted as part of Inspector General, DoD, Report No. 97-155, "Internal Controls and Compliance with Laws and Regulations for the FY 1996 Financial Statements of the 'Other Defense Organizations' Receiving Department 97 Appropriations," June 11, 1997. We relied on the results of the report to assess the adequacy of the DFAS Indianapolis Center management controls over the reporting of the DoD Chief Financial Officer's Other Defense Organizations FY 1996 financial statement. This report is one in a series of reports that will address payroll related issues and the effect of noncompliant payroll actions on FYs 1996 and 1997 financial statements. Appendix A discusses the audit scope and methodology and our review of the management control program. Appendix B summarizes prior coverage.

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## **Personal Services and Benefits Expenses Reported in FY 1996 for Other Defense Organizations**

The Statement of Operations overstated personal services and benefits expenses by \$8 billion as presented in Note 23 of the FY 1996 financial statement. Personal services and benefits were overstated because:

- o accounting offices for the “Other Defense Organizations” reported total, rather than individual, operating expenses to the DFAS Indianapolis Center, contrary to established guidance, and
- o the DFAS Indianapolis Center did not disclose in the financial statement that the reported operating expenses could not be identified by object class.

As a result, the operating expense portion of the Statement of Operations could not be relied upon to accurately present FY 1996 personal services and benefits expenses.

## **Reporting Requirements for the Statement of Operations**

The Statement of Operations is one of the principal statements in an agency’s annual financial statement, as required by the CFO Act. The Statement of Operations discloses the results of a reporting entity’s operations for the reporting period, including changes in the reporting entity’s net position since the end of the prior reporting period.

**Executive Guidance.** OMB Bulletin 94-01, “Form and Content of Agency Financial Statements,” November 16, 1993, defines the form and content of financial statements for executive departments and agencies for FYs 1994 through 1996. OMB directs that each financial statement include related notes that provide additional disclosures to make the principal statements fully informative and not misleading. OMB also directs that operating expenses reported on line 9 of the Statement of Operations, the standard general ledger 6100 series of accounts, be disclosed by either object class or program, based on the reporting entity’s preference.

**DoD Guidance.** DoD Guidance on Form and Content of Financial Statements for FY 1996 Financial Activity, October 1996, directs DoD Components to report operating expenses by OMB object classes and allows the DoD Components to determine whether it is appropriate also to report expenses by

## Personal Services and Benefits Expenses Reported in FY 1996 for Other Defense Organizations

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program as supplemental information. The OMB object class, "Personal Services and Benefits," consists of the following DoD standard general ledger accounts (GLACs):

- o GLAC 6111, Personnel Compensation-Civilian,
- o GLAC 6112, Personnel Compensation-Military,
- o GLAC 6113, Personnel Benefits-Civilian,
- o GLAC 6114, Personnel Benefits-Military, and
- o GLAC 6115, Benefits for Former Personnel.

Appendix C shows the OMB object classes and the related DoD standard general ledger accounts for all operating expenses.

### Consolidated Reporting by the DFAS Indianapolis Center

The DFAS Indianapolis Center was responsible for preparing the FY 1996 financial statement for "Other Defense Organizations." FY 1996 was the first year for CFO consolidated financial statement reporting. The DFAS Indianapolis Center developed, documented, and implemented procedures, instructions, and management controls that would enable it to gather complete financial data from the accounting offices for the "Other Defense Organizations" to meet OMB and DoD reporting requirements.

**Accounting Offices Reporting of Operating Expenses.** Accounting offices for the "Other Defense Organizations" reported total, rather than individual, operating expenses to the DFAS Indianapolis Center, contrary to established guidance. On June 25, 1995, the DFAS Indianapolis Center issued reporting guidance to the accounting offices for the "Other Defense Organizations," stating that Defense agencies and other submitters of Department 97 reports would transition to full trial balance reporting using the DoD standard general ledger chart of accounts during FY 1996. DoD 7000.14-R, "DoD Financial Management Regulation," volume 1, chapter 7, "Department of Defense Standard General Ledger," May 1993, prescribes guidelines and policies for the approved general ledger account structure. The DFAS Indianapolis Center provided each accounting office a copy of a standard general ledger chart of accounts and the DoD descriptions of the accounts. The DFAS Indianapolis Center also provided a copy of a required reporting format for the Defense agencies to follow in submitting their respective accounting data. However, the required reporting format showed operating expenses presented as two totals, Government and non-Government operating expenses, for GLAC 6100, "Operating/Program Expense," which is a summary account. Guidance from the DFAS Indianapolis Center did not include the OMB and DoD requirements to report operating expenses by individual object classes and the corresponding standard general ledger accounts.

**Personal Services and Benefits Expenses Reported in FY 1996 for Other Defense Organizations**

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On January 22, 1996, the DFAS Indianapolis Center issued a second memorandum that provided a revised reporting format for standard general ledger account reporting for the Department 97 appropriations. However, the second memorandum did not clearly state that the Defense agencies needed to submit individual rather than summary general ledger account information.

As a result, supporting accounting offices did not provide individual standard general ledger account or object class information to DFAS Indianapolis Center for \$12.1 billion of total operating expenses in FY 1996. Therefore, the DFAS Indianapolis Center did not have complete information to accurately report total operating expenses by object class in the Statement of Operations for the "Other Defense Organizations."

**Disclosure of Operating Expenses.** The DFAS Indianapolis Center chose to include the total operating expenses in the personal services and benefits object class, rather than disclose in the financial statement that the reported operating expenses could not be identified individually. The DFAS Indianapolis Center followed the basic reporting format outline required by OMB and DoD form and content guidance and provided a breakout of operating expenses by object class in Note 23. However, the DFAS Indianapolis Center did not have complete operating expense data by individual standard general ledger account to enable it to identify operating expenses by object class and did not disclose that fact.

For FY 1996, the Indianapolis Center reported \$40.5 billion of operating expenses on the Statement of Operations and provided a summary of the total amount by object class in Note 23. Note 23 reported an operating expense of \$15.1 billion for the object class, personal services and benefits (Appendix D). However, \$12.1 billion of the expense represented total operating expenses instead of only personal services and benefits. The following table shows the expenses reported by the accounting offices for the "Other Defense Organizations" for each of the GLACs that the DFAS Indianapolis Center included in the personal services and benefits object class.

**Analysis of Personal Services and Benefits Object Class  
by Standard General Ledger Account**

<u>Standard General Ledger Account</u>	<u>Account Title</u>	<u>FY 1996 Expense (thousands)</u>
6100	Operating/Program Expense	\$12,128,071
6111	Personnel Compensation-Civilian	1,956,423
6112	Personnel Compensation-Military	291,783
6113	Personnel Benefits-Civilian	752,974
6114	Personnel Benefits-Military	2
6115	Benefits for Former Personnel	<u>18,665</u>
<b>Total</b>		<b>\$15,147,918</b>

## **Personal Services and Benefits Expenses Reported in FY 1996 for Other Defense Organizations**

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Note 23 would have shown a more accurate presentation of operating expenses if the DFAS Indianapolis Center had disclosed that \$12.1 billion of operating expenses could not be defined by object class. Analysis of GLAC 6100 showed that the \$12.1 billion was not personal services and benefits expenses (Table E-1).

### **Actual Personal Services and Benefits Expenses**

Analysis of individual trial balances obtained from the supporting accounting offices that reported only total operating expenses to the DFAS Indianapolis Center showed that personal services and benefits expenses for the "Other Defense Organizations" in FY 1996 was about \$7.1 billion, not \$15.1 billion as presented in Note 23 of the Statement of Operations (Table E-2). Note 23 overstated personal services and benefits expenses by about \$8 billion (Table E-3). Officials from the DFAS Indianapolis Center agreed that supporting accounting offices needed clear guidance to better understand the requirement for individual general ledger account reporting.

### **Recommendation and Management Comments**

**We recommend that the Director, Defense Finance and Accounting Service Indianapolis Center, issue additional reporting instructions for FY 1997 to clearly require accounting offices to report operating expenses by individual general ledger expense accounts instead of by the summary general ledger expense account (number 6100).**

**Management Comments.** The Defense Finance and Accounting Service concurred and stated that the recommended action was completed August 11, 1997. The additional reporting instruction specifically precluded the use of summary accounts.

## **Part II - Additional Information**

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## Appendix A. Audit Process

### Scope and Methodology

We reviewed the FY 1996 “Other Defense Organizations” financial statement provided to us as of March 1997. The DFAS Indianapolis Center consolidated 682 adjusted trial balances that 23 supporting accounting offices submitted on behalf of 35 Defense organizations and funds. The 35 Defense organizations were appropriated \$39 billion in FY 1996, and the Statement of Operations showed \$40.5 billion of operating expenses, including \$15.1 billion of personal services and benefits expenses. Our audit concentrated on the operating expenses reported as personal services and benefits in Note 23 of the Statement of Operations. We reviewed and analyzed the trial balance data for the “Other Defense Organizations” that reported operating expenses in summary form (GLAC 6100) and compared the results with the information reported on the Statement of Operations.

**Use of Computer-Processed Data.** We relied on FY 1996 computer-processed data that the DFAS Indianapolis Center generated to prepare the FY 1996 CFO statements. In addition, we relied on computer-processed general ledger data and financial reports generated by various accounting systems, which the “Other Defense Organizations” used for accounting and management purposes. We did not validate the reliability of any of the accounting and management systems because we limited our use of the data to conduct tests of management controls, to perform analytical reviews, and to obtain an understanding of the procedures that DFAS Indianapolis Center used to compile and report operating expenses. However, not validating the reliability of data did not affect the results of the audit.

**Audit Type, Dates, and Standards.** We performed this financial-related audit from January through May 1997 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. We included tests of management controls considered necessary.

**Contacts During the Audit.** We visited or contacted organizations within DoD. Further details are available on request.

## Management Control Program

DoD Directive 5010.38, "Management Control Program," August 26, 1996, requires DoD managers to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of those controls.

**Scope of Review of Management Control Program.** We relied on the work reported in Inspector General, DoD, Report No. 97-155, "Internal Controls and Compliance with Laws and Regulations for the FY 1996 Financial Statements of the 'Other Defense Organizations' Receiving Department 97 Appropriations," June 11, 1997 (see Appendix B) to assess the adequacy of the DFAS Indianapolis Center management controls over the reporting of the DoD CFO Other Defense Organizations FY 1996 financial statement. We reviewed management's self-evaluation applicable to these controls.

**Adequacy of Management Controls.** We identified material management control weaknesses, as defined by DoD Directive 5010.38. The DFAS Indianapolis Center management controls for preparing the Statement of Operations were not adequate to ensure that all operating expenses were properly classified and were included in the statement. The recommendation in this report, if implemented, will improve the accuracy of the presentation of operating expenses in the Statement of Operations for future years. A copy of this report will be provided to the senior DFAS official responsible for management controls.

**Adequacy of Management's Self-Evaluation.** Management's self-evaluation did not detect and report the management control weaknesses identified in this report because the DFAS Indianapolis Center did not assess the reconciliation and adjustment of the Defense organizations' adjusted trial balances as part of the DFAS Indianapolis Center management control program.

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## Appendix B. Summary of Prior Coverage

The Office of the Inspector General, DoD, issued three reports in FY 1997 that relate to accounting controls on operating expenses that are applicable to the preparation of financial statements as part of the CFO Act of 1990.

**Inspector General, DoD, Report No. 97-155, "Internal Controls and Compliance with Laws and Regulations for the FY 1996 Financial Statements of the 'Other Defense Organizations' Receiving Department 97 Appropriations," June 11, 1997.** The report states that the consolidated principal statements for the "Other Defense Organizations" were not an accurate and reliable representation of the financial operations of the Defense organizations and funds that received Department 97 general fund appropriations. Unless improvements in accounting systems and management controls are made, the "Other Defense Organizations" FYs 1997 and 1998 financial statements will not be reliable. The report also states that the DFAS Indianapolis Center and the accounting offices supporting the Defense organizations and funds receiving Department 97 appropriations were unable to fully comply with applicable laws and regulations. As a result, the Defense organizations receiving Department 97 general funds were not in full compliance with the CFO Act and the Federal Managers' Financial Integrity Act. The report recommended that the Director, DFAS Indianapolis Center, maintain records for audit trails of all adjustment transactions; reconcile the current year Department 97 expenditure data for the Fund Balance With Treasury account to the Department of the Treasury data; and document the review process used and the decision made regarding the auditors' recommended adjustment to the principal statements, including the footnotes. The Director, DFAS Indianapolis Center, concurred with the recommendations.

**Inspector General, DoD, Report No. 97-141, "Financial Management at the Uniformed Services University of the Health Sciences," May 9, 1997.** The report states that the accounting procedures for the Uniformed Services University of the Health Sciences and DFAS Denver Center Operating Location did not comply with prescribed DoD accounting standards. As a result, financial information for the Uniformed Services University of the Health Sciences produced and recorded by the DFAS Denver Center Operating Location cannot be relied on to prepare accurate financial statements required by the CFO Act. The report recommended that the Director, DFAS Denver Center Operating Location, and the Vice President of Resource Management, Uniformed Services University of the Health Sciences, implement management control procedures to accurately record financial activity in accordance with DoD regulations. The report also recommended that the procedures include assets, liabilities, and equity that the Armed Forces Radiobiology Research Institute acquired before October 1, 1993, as part of the financial records of the Uniformed Services University of the Health Sciences. The DFAS Denver Center Operating Location and the President, Uniformed Services University of the Health Sciences, concurred with the recommendations.

**Inspector General, DoD, Report No. 97-140, "Financial Management at the American Forces Information Service," May 7, 1997.** The report states that the adjusted trial balance for the American Forces Information Service did not comply with prescribed DoD accounting standards. Also, the report states that the accounting offices and the Armed Forces Information Service did not maintain audit trails. Further, the report states that the Armed Forces Radio and Television Service Broadcast Center did not account for and properly report funds disbursements and account payable. As a result, the Armed Forces Information Service FY 1995 trial balance information was not fully supported and financial data cannot be depended on to produce reliable financial statements required by the CFO Act of 1990. The report recommended that the Directors, DFAS Indianapolis Center; Rome Operating Location; Seaside Operating Location; and the Armed Forces Information Service establish management controls to ensure compliance with DoD requirements for accounting and reporting of financial information. The Directors, DFAS Indianapolis Center; Rome Operating Location; Seaside Operating Location; and the Armed Forces Information Service concurred with the recommendations.

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## Appendix C. OMB Object Classes and Related DoD Standard General Ledger Accounts

<u>Object Class</u>	<u>General Ledger Account</u>	<u>Account Definition</u>
Personal services and benefits	6111-Personnel Compensation-Civilian	Represents the gross compensation for personal services rendered by Federal civilian employees and non-Federal employees.
	6112-Personnel Compensation-Military	Represents the earned basic, incentive, and special pays for military personnel.
	6113-Personnel Benefits-Civilian	Represents the benefits paid directly to DoD civilian personnel and payments to other funds for the benefit of the employees.
	6114-Personnel Benefits-Military	Represents the benefits paid directly to military personnel or to other funds for military personnel.
	6115-Benefits for Former Personnel	Represents benefits due to former personnel or their survivors.
Travel and transportation	6116-Travel and Transportation of Persons	Represents the expense of transporting employees and others, including their per diem allowances, while in an authorized travel status.
	6117-Transportation of Things	Represents the expense of transporting things and the care of such things while in the process of being transported.

**Appendix C. OMB Object Classes and Related DoD Standard General Ledger  
Accounts**

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<u>Object Class</u>	<u>General Ledger Account</u>	<u>Account Definition</u>
Rents, communications, and utilities	6118-Rents, Communications, and Utilities	Represents the expense incurred for rents, communications, and utilities purchased from commercial or U.S. Government sources.
Printing and reproduction	6119-Printing and Reproduction	Represents the expense incurred for printing and reproduction and the related composition and binding operations.
Contractual services	6120-Other Services	Represents the expense incurred for services not otherwise classified.
Supplies and material	6121-Supplies and Materials	Represents the expense incurred for supplies and materials, including ammunition. Includes all supplies consumed or utilized that do not meet the capitalization criteria.
Equipment not capitalized	6122-Equipment Not Capitalized	Represents the acquisition costs of equipment that do not meet capitalization requirements.
Grants, subsidies, and contributions	6123-Grants, Subsidies, and Contributions	Represents the value of grants, subsidies, and contributions made to further or enhance the interest of national defense.
Insurance claims and indemnities	6124-Insurance Claims and Indemnities	Represents payments to veterans and their survivors for death or disability, claims and judgments arising from court decisions, contracts, and military operations.

## Appendix C. OMB Object Classes and Related DoD Standard General Ledger Accounts

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<u>Object Class</u>	<u>General Ledger Account</u>	<u>Account Definition</u>
Other	6130-Annual Leave	Represents the expense for annual leave earned by military personnel and civilian employees during the accounting period.
	6190-Contra Bad Debt Expense-Incurred for Others	Represents bad debt expense.
	6199-Adjustment to Subsidy Expense	Represents the amount of adjustment to subsidy expense in the program fund.
	6400-Benefit Program Expense	Represents amounts paid by the Military Retirement Trust Fund and the DoD Education Benefits Trust Fund.

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## Appendix D. Operating Expenses by Object Class as Reported in Note 23 of the Statement of Operations

<u>Object Class</u>	<u>FY 1996 Expense (thousands)</u>
Personal services and benefits	\$15,147,918
Travel and transportation	1,064,992
Rental, communications, and utilities	636,916
Printing and reproduction	21,292
Contractual services	20,484,961
Supplies and materials	1,600,060
Equipment not capitalized	1,170,717
Grants, subsidies, and contributions	246,954
Insurance claims and indemnities	2,413
Other	<u>131,454</u>
<b>Total</b>	<b>\$40,507,677</b>

## Appendix E. Analysis of Operating Expenses to Determine FY 1996 Personal Services and Benefits

**Table E-1. Analysis of GLAC 6100 Operating Expenses as Reported on Trial Balances by Accounting Offices for “Other Defense Organizations”**

<u>Operating Expenses by Object Class</u>	<u>FY 1996 Expense (thousands)</u>
Personal services and benefits	\$ 4,154,199
Travel and transportation	442,952
Rental, communications, and utilities	277,083
Printing and reproduction	4,364
Contractual services	1,577,060
Supplies and materials	313,987
Equipment not capitalized	1,339,491
Grants, subsidies, and contributions	6,892
Insurance claims and indemnities	0
Other	<u>1,990,139</u>
<b>Subtotal</b>	<b>\$10,106,167</b>
<u>Other Expenditures<sup>1</sup></u>	
National Imagery and Mapping Agency <sup>2</sup>	\$ 718,482
DFAS Columbus Center <sup>3</sup>	685,277
Other <sup>4</sup>	167,780
Procurement	192,278
Military construction	<u>174,041</u>
<b>Subtotal</b>	<b>\$ 1,937,858</b>
<b>Total</b>	<b>\$12,044,025</b>
Less: GLAC 6100 operating expenses reported on the Statement of Operations by DFAS Indianapolis Center	<u>12,128,071</u>
<b>Difference between operating expenses reported on trial balances and on the Statement of Operations</b>	<b>\$ 84,046</b>

<sup>1</sup>Expenditures not identified to specific object classes.

<sup>2</sup>The National Imagery and Mapping Agency did not provide trial balance data. The amount shown represents total operating expenses as reported to DFAS Indianapolis Center.

<sup>3</sup>DFAS Columbus Center trial balance data not identified to specific object classes.

<sup>4</sup>Other DoD organizations trial balance data not identified to specific object classes.

**Appendix E. Analysis of Operating Expenses to Determine FY 1996 Personal Services  
and Benefits**

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**Table E-2. Total Personal Services and Benefits Expenses  
as Determined by Audit**

	<u>FY 1996 Expense (thousands)</u>
From audit analysis of GLAC 6100 (see Table E-1)	\$ 4,154,199
Expenses reported by accounting offices for "Other Defense Organizations" to the DFAS Indianapolis Center:	
GLAC 6111, Personnel Compensation-Civilians	1,956,423
GLAC 6112, Personnel Compensation-Military	291,782
GLAC 6113, Personnel Benefits-Civilian	752,974
GLAC 6114, Personnel Benefits-Military	2
GLAC 6115, Benefits for Former Personnel	<u>18,664</u>
<b>Total</b>	<b>\$ 7,174,044</b>

**Table E-3. Calculation of Overstated Personal Services and Benefits  
as Determined by Audit**

	<u>FY 1996 Expense (thousands)</u>
Amount as reported on the Statement of Operations (see Appendix D)	\$15,147,918
Less: Amount from audit calculation (see Table E-2)	<u>7,174,044</u>
<b>Total</b>	<b>\$ 7,973,874</b>

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## **Appendix F. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense (Comptroller)  
Deputy Chief Financial Officer  
Deputy Comptroller (Program/Budget)  
Assistant Secretary of Defense (Public Affairs)  
Director, Defense Logistics Studies Information Exchange  
Director, Washington Headquarters Services  
Director for Budget and Finance, Washington Headquarters Services

### **Department of the Army**

Auditor General, Department of the Army

### **Department of the Navy**

Assistant Secretary of the Navy (Financial Management and Comptroller)  
Auditor General, Department of the Navy

### **Department of the Air Force**

Assistant Secretary of the Air Force (Financial Management and Comptroller)  
Auditor General, Department of the Air Force

### **Unified Command**

Commander in Chief, U.S. Special Operations Command

### **Other Defense Organizations**

Director, American Forces Information Service  
Director, Ballistic Missile Defense Organization  
President, Defense Acquisition University  
Director, Defense Advanced Research Projects Agency  
Director, Defense Contract Audit Agency

## Other Defense Organizations (cont'd)

Director, Defense Finance and Accounting Service  
    Director, Defense Finance and Accounting Service Cleveland Center  
    Director, Defense Finance and Accounting Service Columbus Center  
    Director, Defense Finance and Accounting Service Denver Center  
    Director, Defense Finance and Accounting Service Indianapolis Center  
Director, Defense Health Program  
Director, Defense Information Systems Agency  
Director, Defense Intelligence Agency  
    Inspector General, Defense Intelligence Agency  
Director, Defense Investigative Service  
Director, Defense Legal Services Agency  
Director, Defense Logistics Agency  
Director, Defense Medical Program Activity  
Director, Defense Prisoner of War/Missing in Action Office  
Director, Defense Special Weapons Agency  
Director, Defense Technology Security Agency  
Director, Department of Defense Education Activity  
Director, Federal Energy Management Program  
Director, National Imagery and Mapping Agency  
Director, National Security Agency  
    Inspector General, National Security Agency  
Director, Office of Civilian Health and Medical Program of the Uniformed Services  
Director, Office of Economic Adjustment  
Director, On-Site Inspection Agency

## Non-Defense Federal Organizations and Individuals

Office of Management and Budget  
Technical Information Center, National Security and International Affairs Division,  
    General Accounting Office

Chairman and ranking minority member of each of the following congressional committees and subcommittees:

Senate Committee on Appropriations  
Senate Subcommittee on Defense, Committee on Appropriations  
Senate Committee on Armed Services  
Senate Committee on Governmental Affairs  
House Committee on Appropriations  
House Subcommittee on National Security, Committee on Appropriations  
House Committee on Government Reform and Oversight  
House Subcommittee on Government Management Information and Technology,  
    Committee on Government Reform and Oversight  
House Subcommittee on National Security, International Affairs, and Criminal  
    Justice, Committee on Government Reform and Oversight  
House Committee on National Security

## **Part III - Management Comments**

# Defense Finance and Accounting Service Comments



## DEFENSE FINANCE AND ACCOUNTING SERVICE

1931 JEFFERSON DAVIS HIGHWAY  
ARLINGTON, VA 22240-5291

DFAS-HQ/AFB

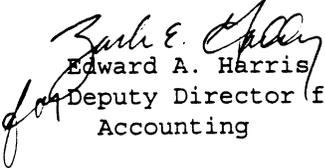
NOV 6 1997

MEMORANDUM FOR DIRECTOR, READINESS AND OPERATIONAL SUPPORT  
DIRECTORATE, OFFICE OF THE INSPECTOR GENERAL,  
DEPARTMENT OF DEFENSE

SUBJECT: Audit Report on Personal Services and Benefits  
Expenses in the FY 1996 Statement of Operations  
and Changes in Net Position of the "Other Defense  
Organizations" (Project No. 7RF-2010)

The attached comments are provided in response to the  
subject audit.

Please direct any questions concerning this matter to  
Ms. Martha Cooper at (703) 607-5102.

  
Edward A. Harris  
Deputy Director for  
Accounting

Attachment:  
As stated

**Subject:** Audit Report on Personal Services and Benefits Expenses  
in the FY 1996 Statement of Operations and Changes in  
Net Position of the "Other Defense Organizations"  
(Project No. 7RF-2010)

**Reccomendation:** We recommend that the Director, Defense Finance and Accounting Service Indianapolis Center, issue additional reporting instructions for FY 1997 to clearly require accounting offices to report operating expenses by individual general ledger expense accounts instead of by the summary general ledger expense account (number 6100).

**DFAS Response:** Concur. The DFAS issued instructions on General Ledger Reporting for the Department 97 Appropriations on June 25, 1995. Those instructions were applicable for FY 1996 and ensuing fiscal years. The DFAS reinforced the FY 1996 reporting instructions to provide "full trial balance reporting using the DoD Standard General Ledger chart of accounts" by emphasizing the requirements used for detailed general ledgers to identify specific transactions. This action was completed August 11, 1997.

## **Audit Team Members**

The Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD, produced this report.

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