Audit Report

CONSOLIDATION PROCESS FOR
FY 1997 FINANCIAL STATEMENTS
FOR OTHER DEFENSE ORGANIZATIONS

Report Number 99-006 October 6, 1998

Office of the Inspector General
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Acronyms

CFO	Chief Financial Officers
DFAS	Defense Finance and Accounting Service
IG	Inspector General
WHS	Washington Headquarters Services

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

October 6, 1998

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
DIRECTOR, DEFENSE INTELLIGENCE AGENCY
DIRECTOR, NATIONAL SECURITY AGENCY

SUBJECT: Audit Report on the Consolidation Process for FY 1997 Financial Statements on Other Defense Organizations (Report No. 99-006)

We are providing this report for review and comment. This audit was performed in response to the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994. We considered management comments on a draft of this report in preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Defense Finance and Accounting Service did not comment on a draft of this report. Therefore, we request that the Defense Finance and Accounting Service provide comments on the final report by November 6, 1998.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Charles J. Richardson at (703) 604-9582 (DSN 664-9582), e-mail <crichardson@dodig.osd.mil>, or Mr. Marvin L. Peek at (703) 604-9587 (DSN 664-9587), e-mail <mpeek@dodig.osd.mil>. See Appendix C for the report distribution. The audit team members are listed inside the back cover.

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Office of the Inspector General, DoD

Report No. 99-006 **October 6, 1998**
(Project No.7RF-2028)

Consolidation Process For FY 1997 Financial Statements for Other Defense Organizations

Executive Summary

Introduction. We performed the audit in response to the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994, which requires DoD and other Government agencies to prepare consolidated financial statements for FY 1996 and each succeeding year. The DoD Consolidated Financial Statements for FY 1997 include financial statements for a reporting entity entitled "Other Defense Organizations." This entity represents a consolidation of financial information from various Defense organizations, funds, and accounts that use the Treasury Index 97 symbol. During FY 1997, the 44 Defense entities included in Other Defense Organizations received $39.1 billion in direct appropriations, and their financial statements showed total assets of $46.5 billion and liabilities of $222.2 billion.

Audit Objectives. The overall objective was to assess internal controls and compliance with laws and regulations. Specifically, we reviewed the processes used to gather, generate, and incorporate financial information into the financial statements for Other Defense Organizations. We also evaluated the effect of noncompliant actions on the FY 1997 financial statements.

Audit Results. The Defense Finance and Accounting Service (DFAS) Indianapolis Center has made progress in identifying, receiving, and consolidating financial information for Other Defense Organizations. However, additional improvements were needed by both DFAS and accounting offices reporting financial information. DFAS Indianapolis Center did not establish timely reporting dates for supporting accounting offices that submit trial balances for consolidation into the financial statements for Other Defense Organizations. Offices responsible for reporting information did not comply with a DFAS requirement to submit monthly trial balances, and DFAS Indianapolis Center had not developed a process for using the monthly trial balances. As a result, the DFAS Indianapolis Center was unable to provide preliminary trial balances in a timely manner to support the required audits of the annual financial statements of Other Defense Organizations. Also, the DFAS Indianapolis Center was unable to review and reconcile information from trial balances with financial data from other sources. Until the weaknesses are corrected, financial data included in the financial statements for Other Defense Organizations will not be complete, comprehensive, and readily auditable. See Part I for details on the audit results.

Summary of Recommendations. We recommend that the Director, DFAS Indianapolis Center:

- require supporting accounting offices to submit financial information in sufficient time to meet deadlines agreed to by DFAS and the Inspector General, DoD, and

- establish procedures and reallocate resources as necessary to fully implement an interim process for quarterly general ledger trial balance reporting.

We further recommend that the Directors, DFAS Centers at Cleveland, Columbus, Denver, and Indianapolis, and Directors, National Security Agency, and Defense Intelligence Agency, provide quarterly trial balances to the DFAS Indianapolis Center.

Management Comments. The Directors, National Security Agency and Defense Intelligence Agency, concurred with the recommendations. The National Security Agency stated it will begin submitting quarterly trial balances on September 30, 1998. The Defense Intelligence Agency stated that it will begin submitting quarterly trial balances when appropriate changes to its accounting system are made by the National Security Agency. The Director, DFAS, did not respond to the draft of this report. Therefore, we request DFAS provide comments on the final report by November 6, 1998.

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Part I - Audit Results

Audit Background

Requirements for Financial Statements. Public Law 101-576, the "Chief Financial Officers (the CFO Act) Act of 1990," November 15, 1990, requires Federal organizations to prepare financial statements for each of their general funds, trust funds, revolving funds, and commercial activities, and to submit the financial statements to the Director, Office of Management and Budget. The CFO Act also requires the Inspectors General to audit, or oversee, the audit of all financial statements prepared under the CFO Act. The CFO Act, as amended by Public Law 103-356, "The Federal Financial Management Act of 1994," October 13, 1994, requires DoD and other Government agencies to prepare consolidated financial statements for FY 1996 and the following years.

Other Defense Organizations. The DoD consolidated financial statements for FY 1997 include financial information for a reporting entity entitled "Other Defense Organizations." This entity represents a consolidation of financial information for the various Defense agencies, funds, and accounts using Treasury Index No. 97 (Department 97), and financial information for that portion of the Department 97 funds suballocated to the Military Departments. In FY 1997, 44 Defense organizations, funds, and accounts included in Other Defense Organizations were appropriated $39.1 billion of Department 97 funds to perform their missions and functions.

Defense Organization Responsibility for Financial Statements. In his memorandum dated June 6, 1995, the DoD Deputy Chief Financial Officer notified the DoD Components of the requirement, for FY 1996 and subsequent years, to prepare and submit financial statements in accordance with the Federal Financial Management Act of 1994. DoD Regulation 7000.14-R, "Financial Management Regulation," volume 6, chapter 6, "Form and Content of Audited Financial Statements," January 1998, states that DoD Components are responsible for the accuracy, completeness, and documentary support for all data submitted to the Defense Finance and Accounting Service (DFAS) for inclusion in financial reports.

DFAS Roles and Responsibilities. During FY 1997, DFAS accounting offices provided support for most Defense organizations using Department 97 funds except for certain organizations supported by the Washington Headquarters Services (WHS) Allotment Accounting System, the Tricare Support Office, organizations required to perform their own accounting because of security considerations, and a few small organizations. The roles and responsibilities of DFAS and its customers regarding proper and consistent preparation of the financial reports are defined in the DoD Regulation 7000.14-R, volume 6, "Reporting and Policy Procedures," February 1996. The regulation requires DFAS to establish procedures to ensure that the process for preparing financial reports is consistent, timely, and auditable, and that controls are in place to ensure the accuracy of the reports. Beginning in FY 1996, the DFAS Indianapolis Center became responsible for preparing the financial statements for the Department 97 funds.

Audit Objectives

The overall objective was to assess internal controls and compliance with laws and regulations. Specifically, we reviewed the processes used to gather, generate, and incorporate financial information into the financial statements for Other Defense Organizations. We also evaluated the effect of noncompliant actions on the FY 1997 financial statements. Appendix A discusses the audit scope and methodology and our review of the management control program. Appendix B summarizes prior coverage.

Consolidation of Financial Information for Other Defense Organizations

The DFAS Indianapolis Center was unable to prepare timely consolidated trial balances for Other Defense Organizations for review because:

- the Indianapolis Center did not request supporting accounting offices to provide trial balances in sufficient time to meet established deadlines, and

- supporting accounting offices did not prepare complete or timely trial balances.

Also, offices reporting information for Other Defense Organizations did not comply with the DFAS requirement to submit monthly trial balances because activities did not use the DoD Standard General Ledger; DFAS had not developed a process to identify, monitor, and follow up on organizations not reporting; and the requirement for monthly trial balances was overly optimistic. In addition, the DFAS Indianapolis Center had not developed a process for using the monthly trial balances to produce interim Other Defense Organizations financial statements, because adequate resources, emphasis, and attention had not been devoted to satisfying that requirement. As a result, the DFAS Indianapolis Center was unable to comply with required milestones for audited financial statements, and was unable to review and reconcile information from trial balances with financial data from other sources.

Consolidation Process, and Preparation Milestones

The DFAS Indianapolis Center prepared the FY 1997 consolidated statements for Other Defense Organizations from accounting information reported by 14* reporting offices that received information from multiple accounting offices that used at least 24 different accounting systems. The consolidation process is initiated each year when the accounting offices that support the 44 organizations, funds, and accounts included in Other Defense Organizations submit financial information in the form of trial balances to the DFAS Indianapolis Center, Directorate for Defense Accounting (Accounting Directorate). Supporting accounting offices are required by DFAS Indianapolis

*In December 1997, DFAS Indianapolis Center provided us a list showing 40 accounting offices "submitting" financial information. However, in this report we are showing only 14 accounting offices responsible for providing trial balances to DFAS Indianapolis Center, because the additional offices were subordinate to various DFAS Centers or did not provide material account balances.

Center to provide trial balances that use the DoD Standard General Ledger chart of accounts and to show all applicable account balances, not just summary accounts.

Consolidation Process. The Accounting Directorate consolidated the trial balance information prepared for Other Defense Organizations, then compared the consolidated trial balance and adjusted the applicable accounts in the trial balance to agree with the budgetary data in certified year-end "Report(s) on Budget Execution." The Accounting Directorate made adjustments because it considered the budgetary data to be more reliable than trial balances prepared from other sources of accounting data. As a result, the Accounting Directorate made adjustments totaling $111.5 billion for FY 1997 that materially altered general ledger account data submitted by the accounting offices.

Preparation Milestones. A June 6, 1997, memorandum signed by the Deputy Chief Financial Officer, DoD; the Director, Defense Finance and Accounting Service; and the Assistant IG for Auditing, established milestones to present audited financial statements to the Office of Management and Budget on March 1 following the fiscal year reported. The "Memorandum of Understanding Responsibilities for Audited Financial Statements," states that DFAS will provide mid-year and preliminary year-end trial balances to the IG, DoD, by July 31 and during October, respectively. These deadlines were established to enable us to begin audit work in a timely manner.

Year-End Trial Balance Submissions

Year-End Submission Requirements. For the DFAS Indianapolis Center to provide preliminary year-end trial balances to us by the end of October, as agreed to by DFAS and the IG, DoD, the accounting offices that support the Other Defense Organizations should submit complete trial balances in the required format promptly after the September 30 fiscal year end. However, the DFAS Indianapolis Center did not require the accounting offices to submit the accounting information until November 1, 1997. This made it difficult for DFAS Indianapolis Center to provide preliminary year-end trial balances in October, as agreed to in the Memorandum of Understanding.

Furthermore, the Accounting Directorate was not able to provide the auditors with the mid-year trial balance reports for the Other Defense Organizations as agreed to in the June 6, 1997, memorandum. The Accounting Directorate provided the preliminary year-end data on December 9, 1997.

Complete Trial Balances. Supporting accounting offices are required to prepare complete trial balances for each Defense organization for submission to the Accounting Directorate. A complete trial balance should use DoD Standard General Ledger chart of accounts and show the year-end balance for each proprietary account that must be reported in the financial statements. However, because some organizations did not have general ledger accounting systems and other general ledger accounting systems used nonstandard DoD general ledger accounts, the completeness and reliability of accounting information provided was questionable. For example, the organizations supported by the accounting

offices under DFAS Denver Center did not use general ledger accounting systems, and DFAS Indianapolis Center had to prepare trial balances for at least seven organizations because it did not receive required trial balances.

Timeliness. Untimely submissions by supporting offices also contributed to DFAS Indianapolis Center's problems in preparing a consolidated trial balance. For example, 10 supporting accounting offices submitted trial balances after the November 1, 1997, deadline imposed by DFAS Indianapolis Center (See Appendix C for the 10 accounting offices.).

Process for Producing Interim Financial Statements

Beginning in March 1996, the DFAS Indianapolis Center instituted an interim process for generating and consolidating Other Defense Organizations' financial data while awaiting implementation of complete general ledger accounting control systems. This process included a requirement for accounting offices to submit monthly trial balances to the Accounting Directorate. The requirement was designed to facilitate the consolidation process by enabling the Accounting Directorate to:

- review the financial information to identify errors or differences between the Defense organizations' monthly trial balances and monthly budget execution reports,

- inform supporting accounting offices of general ledger accounts that need to be corrected and reconciled, and

- update the Accounting Directorate records throughout the year, thereby eliminating the majority of the year-end adjustments to trial balances for Other Defense Organizations and expediting preparation of the consolidated financial statements.

Effectiveness of the Interim Process. The interim process did not function effectively for either the FY 1996 or FY 1997 financial statements because 7 of the 14 accounting offices, identified in Appendix C, that supported all or part of 25 of the 44 Defense organizations, did not comply with the monthly trial balance reporting requirement. Also, the Accounting Directorate did not use the monthly trial balances that were submitted. As a result, the Accounting Directorate could not keep the departmental general ledger current and had to perform all adjustments, corrections, and reconciliations after the end of the fiscal year.

Accounting Directorate personnel stated that they did not have sufficient resources to review the trial balances that were provided and to update accounting records other than at year-end. We identified the lack of resources in IG, DoD, Report No. 98-027, "Comprehensiveness of the FY 1996 Other Defense Organizations Financial Statements," November 28, 1997. Unless the DFAS Indianapolis Center adequately allocates the needed resources to review the monthly trial balances and update the departmental accounting records, the prospects for continuous improvement are questionable.

Monitoring Monthly Trial Balance Submissions. The Accounting Directorate did not effectively implement its interim process, partially because it did not identify an accurate list of accounting offices that should submit trial balances directly to the Accounting Directorate and did not implement adequate followup procedures.

Accounting Offices. During FY 1997, the Accounting Directorate had a list of accounting offices that should submit trial balances to DFAS Indianapolis Center for specific Department 97 entities and their points of contact. However, the list was not complete, accurate, or current because the list did not include funding codes for which the accounting offices were responsible, information for 16 organizations was obsolete, and other accounting offices were not shown. In December 1997, at our request, the Accounting Directorate provided a new list. The new list showed 40 accounting offices, which included other offices that accounted for portions of funds provided to specific organizations. The list also included specific funding codes and points of contact for the accounting offices.

Followup Procedures. The Accounting Directorate did not implement effective followup procedures to ensure that accounting offices submit interim trial balances. Accounting Directorate personnel stated that several times they verbally contacted the accounting offices that did not comply with the interim requirement since the requirement started in March 1996. However, followup efforts were unsuccessful. The Accounting Directorate did not document the followup efforts and did not set up alternative procedures to obtain the monthly trial balances if the first followup attempt was not successful. As a result, the Accounting Directorate did not receive the interim trial balances and was prevented from updating the accounting records in a timely manner, which could have reduced year-end workload, and helped the Accounting Directorate provide preliminary trial balances to us.

Benefits of Implementing an Interim Submission Requirement

While the requirement for monthly trial balances submissions was well-intended, the goal was optimistic. From the onset of this requirement, some supporting accounting offices did not submit monthly trial balances nor did the Accounting Directorate have effective procedures to monitor and enforce compliance. The Accounting Directorate did not have time to accurately reconcile each discrepancy and, as a result, DFAS Indianapolis Center made year-end adjustments totaling $111.5 billion to the FY 1997 year-end trial balances without adequate supporting documentation. Those adjustments were not adequately supported, and will be discussed in a future IG, DoD, audit report, "Audit of the Compilation of the FY 1997 Financial Statements for Other Defense Organizations."

Quarterly general ledger trial balance submissions may be a more realistic goal and would still facilitate the success of the Other Defense Organizations consolidation process by enabling the Accounting Directorate to perform interim updates of the departmental general ledger. A quarterly trial balance requirement would place less of a burden on the accounting offices to prepare

and submit trial balances, and on the Accounting Directorate to use them, than would the current monthly requirement. A quarterly trial balance requirement would still facilitate general ledger updates and corrections during the fiscal year and ease the burden following the end of the year, as the Accounting Directorate envisioned for the monthly trial balance requirement.

Recommendations and Management Comments

1. We recommend that the Director, Defense Finance and Accounting Service Indianapolis Center, require supporting accounting offices to submit complete trial balances in sufficient time to provide the Inspector General, DoD, with preliminary year-end trial balances for Other Defense Organizations by the October deadline agreed to in the Memorandum of Understanding on Responsibilities for Audited Financial Statements, June 6, 1997.

2. We recommend that the Directors, Defense Finance and Accounting Service Indianapolis Center, Cleveland Center, Denver Center, Columbus Center, National Security Agency, and Defense Intelligence Agency, submit complete quarterly trial balances directly to the Defense Finance and Accounting Service Indianapolis Center, Directorate for Defense Accounting, using the DoD Standard General Ledger chart of accounts.

3. We recommend that the Director, Defense Finance and Accounting Service, Indianapolis Center:

a. Establish a tracking system for quarterly trial balance submissions that includes all accounting offices' current points of contact, specific funding codes, and procedures to update the system on a quarterly basis.

b. Establish followup procedures that include documenting specific followup actions taken to obtain trial balances and notification of next higher management of the accounting office if trial balances are not received.

c. Reallocate personnel to or within the Directorate for Defense Accounting to review and reconcile quarterly trial balances, and update departmental accounting records.

Management Comments. The Comptrollers, National Security Agency and Defense Intelligence Agency, concurred with recommendation No. 2. The National Security Agency Comptroller stated that it would begin submitting quarterly trial balances beginning with the fourth quarter ended September 30, 1998. The Defense Intelligence Agency Comptroller stated that it will begin submitting quarterly trial balances when appropriate changes to its accounting system are made by the National Security Agency. See Part III for the complete text of management comments.

Management Comments Requested

The Director, DFAS, did not comment on a draft of this report. We request that the Director provide comments on the final report.

Part II - Additional Information

Appendix A. Audit Process

Scope and Methodology

We reviewed the status of DFAS actions to establish accounting systems using the DoD Standard Chart of Accounts, with transaction-driven general ledger controls. Because DoD and DFAS have recognized deficiencies in DoD accounting systems and are taking steps to correct the deficiencies, our review was limited to obtaining and reporting the status of those efforts. We did not review the validity of information on trial balances submitted.

We also reviewed the trial balance submissions to the Accounting Directorate by accounting offices supporting Other Defense Organizations to determine whether the accounting offices submitted the required trial balances. In addition, we reviewed controls and procedures established by the Accounting Directorate to track monthly trial balance submissions and to follow up on accounting offices not submitting monthly trial balances. Our review of the effect of noncompliance was limited to showing the extent of the adjustments that the Accounting Directorate made to the ending FY 1997 trial balances to agree with data from the "Report(s) on Budget Execution" for Other Defense Organizations. We also reviewed the factors that prevented the DFAS Indianapolis Center from implementing its interim general ledger reporting process.

During FY 1997, the 44 Defense organizations, funds, and accounts included in the Other Defense Organizations reporting entity received $39.1 billion in direct appropriation; and the financial statements for Other Defense Organizations showed $46.5 billion in assets, $222.2 billion in liabilities, $50 billion in revenues and financing sources, and $49.7 billion in expenses.

Use of Computer-Processed Data. We did not use computer-processed data to support the audit conclusions.

DoD-wide Corporate Level Government Performance and Results Act Goals. In response to the Government Performance and Results Act, the Department of Defense has established 6 DoD-wide corporate-level performance objectives and 14 goals for meeting these objectives. This report pertains to achievement of the following objective and goal:

> **Objective:** Fundamentally reengineer the Department and achieve a 21st century infrastructure. **Goal:** Reduce costs while maintaining required military capabilities across all DoD missions areas. **(DoD-6)**

DoD Functional Area Reform Goals. Most major DoD functional areas have also established performance improvement reform objectives and goals. This report pertains to achievement of the following functional area objective and goal:

Financial Management Objective: Strengthen internal controls. **Goal:** Improve compliance with Federal Managers' Financial Integrity Act. **(FM-5.3)**

General Accounting Office High Risk Area. The General Accounting Office has identified several high risk areas in the Department of Defense. This report provides coverage of the Defense Financial Management high risk area.

Audit Type, Dates, and Standards. We performed this financial-related audit from August 1997 through June 1998 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the IG, DoD, subject to the limitations in scope described in this appendix. Accordingly, we included tests of internal controls as considered necessary.

Contacts During the Audit. We visited or contacted individuals within the DoD. Further details are available upon request.

Management Control Program

DoD Directive 5010.38, "Management Control (MC) Program," and DoD Instruction 5010.40, "Management Control Program Procedures," August 28, 1996, require DoD managers to implement a comprehensive system of management controls that provides reasonable assurance programs are operating as intended and to evaluate the adequacy of those controls.

Scope of Review of the Management Control Program. We relied on the work reported in IG, DoD, Report No. 98-178 and Report No. 97-155 (see Appendix B) to assess the adequacy of Accounting Directorate management controls over the consolidation process for the FY 1997 financial information for Other Defense Organizations. We also reviewed management's self-evaluation of those controls.

Adequacy of Management Controls. We identified a material management control weakness, as defined by DoD Directive 5010.38, at the Accounting Directorate. The Accounting Directorate's management controls for the consolidation of the Other Defense Organizations adjusted trial balances were not adequate to ensure that the supporting accounting offices submitted the required trial balances, or that trial balances received were properly reconciled and adjusted based on supporting documentation. Recommendation 3 in this report, if implemented, will correct the deficiencies. A copy of the report will be provided to the senior official responsible for management controls at DFAS.

Adequacy of Management's Self-Evaluation. Management's self-evaluation did not detect and report the management control weakness identified in this report because the Accounting Directorate did not assess the consolidation of the Other Defense Organizations adjusted trial balances as part of the Accounting Directorate management control program.

Prior Audit Coverage

The IG, DoD, issued at least six reports issued during FY 1996 through FY 1998 that relate to the consolidation of financial information used in financial statements and related management controls for Other Defense Organizations.

Report No. 98-178, "Internal Controls and Compliance With Laws and Regulations for the FY 1997 Financial Statements of Other Defense Organizations," July 13, 1998

Report No. 98-062, "Compilation of the FY 1996 Financial Statements for Other Defense Organizations," February 4, 1998.

Report No. 98-027, "Comprehensiveness of the FY 1996 Other Defense Organizations Financial Statements," November 28, 1997.

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.

Report No. 97-110, "Material Accounting and Management Control Weaknesses in the Defense Agencies' FYs 1995 and 1996 Financial Information," March 17, 1997.

Report No. 97-017, "Consolidated FY 1995 Financial Report on Defense Organizations Receiving Department 97 Appropriations," October 31, 1996.

Appendix B. Accounting Offices Reporting Trial Balances to DFAS Indianapolis Center

There were 14 principal accounting offices that were required to submit FY 1997 trial balances directly to the Defense Agency Reporting Team, in the Customer Support Division of the Directorate for Defense Accounting, at DFAS Indianapolis Center. The DFAS Centers include both accounting offices that perform accounting for Defense organizations and offices that forward accounting information provided by subordinate accounting offices in other locations. Defense organizations may be supported by more than one accounting office because of suballocations of funds and organizational realignments, and therefore may appear more than once in this Appendix.

Reporting Accounting Office	Defense Organization	Date FY 1997 Ending Trial Balance Submitted	Monthly Trial Balances Submitted
1. DFAS Indianapolis Center	American Forces Information Service	October 24, 1997[1]	Yes
	Ballistic Missile Defense Organization		
	Defense Legal Services Agency		
	Defense Prisoner of War/Missing Persons Office		
	Defense Technology Security Administration		
	Office of Economic Adjustment		
	Office of the Inspector General		
	Office of the Joint Chiefs of Staff		
	Defense Special Weapons Agency	November 24, 1997	No[2]
	Base Realignment and Closure	November 19, 1997[3]	No
	Defense Acquisition University		
	Defense Health Program		
	Defense Medical Programs Activity		
	Defense Security Service		
	DoD Education Activity		
	Emergency Response Fund, Defense		
	Federal Emergency Management Program		
	Foreign National Employees Separation Pay Account		
	Homeowners Assistance Fund		
	Office of the Secretary of Defense		
	Other "97" Funds Provided to the Army		
	U.S. Special Operations Command[4]		
	Washington Headquarters Services		

Appendix B. Accounting Offices Reporting Trial Balances to DFAS Indianapolis Center

Reporting Accounting Office	Defense Organization	Date FY 1997 Ending Trial Balance Submitted	Monthly Trial Balances Submitted
2. DFAS Cleveland Center	Ballistic Missile Defense Organization	November 10, 1997	No
	Base Realignment and Closure		
	Defense Advanced Research Projects Agency		
	Defense Health Program		
	Defense Logistics Agency		
	Defense Medical Programs Activity		
	DoD Education Activity		
	Emergency Response Fund, Defense		
	Federal Emergency Management Program		
	Office of the Joint Chiefs of Staff		
	Office of the Secretary of Defense		
	Other "97" Funds Provided to the Army		
	Other "97" Funds Provided to the Navy		
	U.S. Special Operations Command[4]		
	Washington Headquarters Services		
3. DFAS Denver Center	Ballistic Missile Defense Organization	November 5, 1997	No
	Base Realignment and Closure		
	Defense Acquisition University		
	Defense Health Program		
	Defense Medical Programs Activity		
	DoD Education Activity		
	Emergency Response Fund, Defense		
	Federal Emergency Management Program		
	Office of the Joint Chiefs of Staff		
	Other "97" Funds Provided to the Air Force		
	U.S. Special Operations Command[4]		
	Washington Headquarters Services		
	Office of the Secretary of Defense	Not submitted[5]	
	Defense Security Service	Not submitted[6]	
	National Imagery and Mapping Agency	Not submitted[7]	
	Defense Advanced Research Projects Agency	Not submitted[8]	
4. DFAS Columbus Center	Base Realignment and Closure	November 5, 1997	No
	Defense Acquisition University		
	Defense Commissary Agency Surcharge Account		
	Defense Contract Audit Agency		
	Defense Logistics Agency		
	DFAS		
	Washington Headquarters Services		
	William Langer Jewel Bearing Plant Revolving Fund		

Appendix B. Accounting Offices Reporting Trial Balances to DFAS Indianapolis Center

Reporting Accounting Office	Defense Organization	Date FY 1997 Ending Trial Balance Submitted	Monthly Trial Balances Submitted
5. Washington Headquarters Services	Court of Appeals, Armed Forces Defense Building Maintenance Fund Defense Medical Programs Activity Emergency Response Fund, Defense Federal Emergency Management Program Office of the Secretary of Defense Other "97" Funds Provided to WHS by OSD Pentagon Reservation Building Maintenance Fund Washington Headquarters Services	October 24, 1997	Yes
6. DoD Education Activity[9]	DoD Education Activity	November 17, 1997	Yes
7. Defense Information Systems Agency[10]	Defense Information Systems Agency	October 31, 1997	Yes
8. Trust Fund Investment Office	DoD Education Benefits Fund Voluntary Separation Incentive Trust Fund National Security Education Trust Fund	November 5, 1997	Yes
9. Tricare Support Office	Tricare Support Office	November 3, 1997	Yes
10. Uniformed Services University of Health Sciences	Defense Health Program (suballocation) Office of the Secretary of Defense	Not submitted[11]	No
11. On-Site Inspection Agency	On-Site Inspection Agency	November 3, 1997	Yes
12. Defense Intelligence Agency	Defense Intelligence Agency Office of the Secretary of Defense	November 20, 1997	No
13. American Forces Information Service, Los Angeles	American Forces Information Service	October 24, 1997	Yes[12]

Appendix B. Accounting Offices Reporting Trial Balances to DFAS Indianapolis Center

Reporting Accounting Office	Defense Organization	Date FY 1997 Ending Trial Balance Submitted	Monthly Trial Balances Submitted
14. National Security Agency	National Security Agency Office of the Secretary of Defense	November 24, 1997	No

[1]Accounting performed by DFAS Indianapolis Center, Defense Agency Reporting Team, using the WHS Allotment Accounting System. WHS submitted monthly and year-end trial balances for the accounting office to DFAS Indianapolis Center, Directorate for Defense Accounting.

[2]Accounting performed by DFAS Indianapolis Center, Defense Agency Reporting Team, using an accounting system owned by the Defense Special Weapons Agency, which submitted the trial balance. Monthly trial balances were discontinued in June 1997 while the DFAS accounting office moved to DFAS Indianapolis Center.

[3]Accounting performed by various DFAS accounting offices that report to DFAS Indianapolis Center.

[4]DFAS Indianapolis Center prepared a trial balance for the U.S. Special Operations Command from data submitted from the DFAS Cleveland, Denver, and Indianapolis Centers.

[5]Includes two trial balances prepared by DFAS Indianapolis Center from data submitted by two subordinate accounting offices at Air Force bases.

[6]No trial balance submitted by DFAS Denver Center. The DFAS Indianapolis Center prepared a trial balance from the "Report on Budget Execution" and other accounting information.

[7]No trial balances submitted. Budgetary data is submitted by DFAS Omaha Operating Location and the agency accounting office directly to DFAS Indianapolis Center. DFAS Indianapolis Center prepared the year-end trial balance.

[8]DFAS Indianapolis Center prepared the trial balance from financial information submitted directly from DFAS operating locations.

[9]The DoD Education Activity performed the accounting using the WHS Allotment Accounting System. However, WHS submitted trial balances directly to the Accounting Directorate.

[10]Defense Information Systems Agency and DFAS personnel performed the accounting for most agency funding on the WHS Allotment Accounting System, but WHS submitted the monthly and year-end trial balances to the Accounting Directorate. However, accounting for the 11 Defense Information Systems Agency field offices was performed by various accounting offices throughout the world which reported financial information to DFAS Indianapolis Center.

[11]Prepared by DFAS Indianapolis Center from financial data submitted by the agency accounting office.

[12]Trial balances submitted by WHS for two of seven agency subelements. Trial balances for other agency subelements submitted by various DFAS accounting offices.

Appendix C. 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)
Defense Logistics Studies Information Exchange

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

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
Director, Defense Information Systems Agency
Director, Defense Intelligence Agency
  Inspector General, Defense Intelligence Agency
Director, Defense Special Weapons Agency
Director, On-Site Inspection Agency
Director, National Security Agency
  Inspector General, National Security Agency
Director, Tricare Support Office
Director, Washington Headquarters Services

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 Intelligence Agency Comments

DEFENSE INTELLIGENCE AGENCY

WASHINGTON, D.C. 20340-

14 SEP 1998

U-360/OC-4

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Draft Audit Report on the Consolidation Process for FY 1997 Financial Statements for Other Defense Organizations (Project No. 7RF-2028)

1. The Defense Intelligence Agency has reviewed the subject draft audit report and concurs with the recommendation that the Agency submit quarterly Trial Balance reports to the Defense Finance and Accounting Service, Indianapolis Center, beginning with the quarter ending 30 September 1998. Note that the DIA receives accounting systems support from the National Security Agency; our concurrence is contingent upon the NSA being able to modify the accounting system to provide quarterly trial balances by appropriation and fiscal year. This capability is currently under development.

2. Questions regarding this matter may be directed to Mr. John G. Semia, 202-231-2840.

FOR THE DIRECTOR:

LEWIS A. PROMBAIN
Comptroller

National Security Agency Comments

NATIONAL SECURITY AGENCY
FORT GEORGE G. MEADE, MARYLAND 20755-6000

24 August 1998
COMP-041-98

MEMORANDUM FOR THE DIRECTOR, FINANCE AND ACCOUNTING DIRECTORATE, OFFICE OF THE INSPECTOR GENERAL, DOD

SUBJECT: Draft Audit Report on the Consolidation Process for FY 1997 Financial Statements for Other Defense Organizations (Project No. 7RF-2028)

NSA has reviewed the subject draft report. We concur in Recommendation 2, which is the only recommendation addressed to this Agency. Complete quarterly trial balance reports for the National Security Agency will be submitted directly to the Defense Finance and Accounting Service, Indianapolis Center, beginning with the quarter ending 30 September 1998.

Please contact Judy Jefferson, 301-688-8052, if you have any questions or need additional information.

ROBERT J. LIBERATORE
Comptroller

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Audit Team Members

This report was prepared by the Finance and Accounting Directorate.
Office of the Assistant Inspector General for Auditing, DoD

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