Audit Report

FINANCIAL INFORMATION COMPILED BY
DOD FIELD ACCOUNTING SITES

Report No. D-2001-180 September 13, 2001

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Acronyms

DFAS	Defense Finance and Accounting Service
OMB	Office of Management and Budget
USD (Comptroller)	Under Secretary of Defense (Comptroller)

INSPECTOR GENERAL
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September 13, 2001

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE

SUBJECT: Audit Report on Financial Information Compiled by DoD Field Accounting Sites (Report No. D-2001-180)

We are providing this report for review and comment. We conducted the audit in response to Public Law 101-576, 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 when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Under Secretary for Defense (Comptroller) comments were partially responsive. The Under Secretary for Defense (Comptroller) comments did not provide a date that corrective action would be taken on Recommendation 1.a. and did not provide concurrence or nonconcurrence to Recommendation 1.b. We request that the Under Secretary for Defense (Comptroller) reconsider its position on Recommendation 1.c. We request that the Under Secretary for Defense (Comptroller) provide additional comments to Recommendations 1.a., 1.b., and 1.c. by November 13, 2001. Based on the Defense Finance and Accounting Service comments, we deleted draft report Recommendations 2.c., 2.d., 2.e., and 2.f.; revised Recommendation 2.; and added a new Recommendation 2.c. Because the Defense Finance and Accounting Service proposed these revised recommendations, additional comments are not required.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Mr. Richard B. Bird at (703) 604-9159 (DSN 664-9102) (rbird@dodig.osd.mil) or Mr. Jack L. Armstrong at (317) 510-3846 (DSN 699-3846) (jarmstrong@dodig.osd.mil). See Appendix D for the report distribution. The audit team members are listed inside the back cover.

David K. Steensma

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Acting Inspector General
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Office of the Inspector General, DoD

Report No. D-2001-180 **September 13, 2001**
(Project No. D2001FI-0018.005)

Financial Information Compiled by DoD Field Accounting Sites

Executive Summary

Introduction. This report is the fifth and final in a series of audit reports related to the FY 2000 DoD Agency-Wide Financial Statements. The first report discusses the internal controls and compliance with laws and regulations for DoD. The second report discusses the assessment of the FY 2000 Financial Management Improvement Plan. The third report discusses the Audited Financial Statement module of the Defense Departmental Reporting System. The fourth report discusses compilation issues related to the preparation of the FY 2000 DoD Agency-Wide Financial Statements. This report discusses the accuracy and reliability of financial data compiled by the DoD field accounting sites. Public Law 101-576, the "Chief Financial Officers Act of 1990," November 15, 1990, as amended by Public Law 103-356, the "Federal Financial Management Act of 1994," October 13, 1994, requires DoD to prepare annual audited financial statements. Defense Finance and Accounting Service central accounting sites maintain department-level accounting records and prepare financial statements from general ledger trial balances and other financial data submitted by field accounting sites and DoD entities. Field accounting sites were formerly known as Operating Locations, accounting offices at the Defense Finance and Accounting Service Centers, or Finance and Accounting Offices. The DoD Agency-Wide financial statements for FY 2000 reported total net cost-of-operations of $347.5 billion, assets of $616.7 billion, liabilities of $1,002.8 billion, and budgetary resources of $656.1 billion.

Objectives. Our overall objective was to determine whether the FY 2000 DoD Agency-Wide Financial Statements were prepared in accordance with Office of Management and Budget Bulletin No. 97-01, "Form and Content of Agency Financial Statements," October 16, 1996, as amended. As part of the objective, we were to determine whether DoD field accounting sites compiled and submitted accurate and reliable financial information to the Defense Finance and Accounting Service central accounting sites. We also evaluated the adequacy of internal controls that were in place and operating during the preparation of the financial information.

Results. Field accounting sites at 10 of 13 locations made accounting entries totaling about $19.5 billion that were not supported and reported accounting information with about $0.5 billion in abnormal balances. For example, Defense Finance and Accounting Service Omaha made unsupported accounting entries totaling about $11.6 billion to U.S. Transportation Command Working Capital Fund records. Also, the Defense Agency Financial Services Office reported $233.8 million (net) in abnormal balances for the Other Defense Organizations General Fund. As a result, the

central accounting sites received unreliable data to prepare the FY 2000 DoD Agency-Wide Financial Statements. See the Finding section for details on the audit results and Appendix A for details on our review of the management control program.

Summary of Recommendations. We recommend that the Under Secretary of Defense (Comptroller) revise DoD Regulation 7000.14-R, "DoD Financial Management Regulation" to require that approving officials be provided with all supporting documentation at the time each journal voucher is submitted for approval. We recommend that the Under Secretary of Defense (Comptroller) also require all abnormal balances to be researched and corrected if the causes can be identified. If the abnormal balances are not resolved, they should be noted in the trial balance data provided to the central accounting sites so that they can be further researched or disclosed in the Notes to the Principal Statements. We also recommend that the Director, Defense Finance and Accounting Service Arlington develop and execute an implementation strategy to correct the deficiencies identified in the report and monitor the progress.

Management Comments. The Under Secretary for Defense (Comptroller) stated that DoD Regulation 7000.14-R, "DoD Financial Management Regulation" would be revised to require that supporting documentation be provided when a journal voucher is submitted for approval. The Under Secretary of Defense (Comptroller) stated that fund holders instead of the accounting sites should be responsible for research and corrective action of abnormal balances. The Under Secretary of Defense (Comptroller) did not agree that abnormal balances had to be disclosed in the notes of the DoD Agency-Wide financial statements because they believe the disclosure that the entity cannot comply with generally accepted accounting principles was sufficient. The Defense Finance and Accounting Service stated that draft implementation strategies had been developed that address some of the issues raised in the report. The Defense Finance and Accounting Service will take actions to encourage the field accounting sites to update and implement local operating procedures and to provide comprehensive journal voucher training. See the Finding section for a discussion of management comments and the Management Comments section for the complete text.

Audit Response. The Under Secretary of Defense (Comptroller) comments were responsive in part. We request that the Under Secretary of Defense (Comptroller) provide a date for when the DoD Regulation 7000.14-R, "DoD Financial Management Regulation" will be revised. We also request planned corrective actions for the recommendation to research abnormal balances, and reconsideration of the position to properly disclose abnormal balances in the notes to the financial statements. We request that your comments be provided on the final report by November 13, 2001. The Defense Finance and Accounting Service comments were considered responsive, so no additional comments are required.

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Background

This report is the fifth and final in a series of audit reports related to the FY 2000 DoD Agency-Wide Financial Statements. The first report discusses the internal controls and compliance with laws and regulations for DoD. The second report discusses the assessment of the FY 2000 Financial Management Improvement Plan. The third report discusses the Audited Financial Statement module of the Defense Departmental Reporting System. The fourth report discusses compilation issues related to the preparation of the FY 2000 DoD Agency-Wide Financial Statements. This report discusses the accuracy and reliability of financial data compiled by the DoD field accounting sites.

Reporting Requirements. Public Law 101-576, the "Chief Financial Officers Act of 1990," November 15, 1990, as amended by Public Law 103-356, the "Federal Financial Management Act of 1994," October 13, 1994, requires DoD to prepare annual audited financial statements. Office of Management and Budget (OMB) Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements," October 16, 2000, establishes the requirements for audits of Federal financial statements.

Accounting Functions and Responsibilities. The Under Secretary of Defense (Comptroller) (USD [Comptroller]), as the Chief Financial Officer, is responsible for overseeing all financial management activities related to the programs and operations of DoD. As such, the USD (Comptroller) is responsible for compliance with laws and regulations applicable to the DoD Agency-Wide financial statements. The compliance includes whether those financial statements are prepared in accordance with Federal accounting standards and other reporting guidance.

The Defense Finance and Accounting Service (DFAS) performs accounting functions and prepares financial statements for DoD. DFAS operates under the control and direction of the USD (Comptroller). DFAS is responsible for entering information from DoD entities into finance and accounting systems, operating and maintaining the finance and accounting systems, and ensuring the continued integrity of the information entered. The DoD reporting entities are responsible for providing accurate financial information to DFAS through the data feeder systems. The data feeder systems contain the day-to-day operating information to be translated into financial information and processed in finance and accounting systems. The purpose is to provide useful information for financial managers.

Compilation Process. DFAS central accounting sites compile the financial statements for DoD reporting entities. Compilation includes maintaining department-level accounting records and preparing financial statements from general ledger trial balances and other financial data submitted by field accounting sites and DoD entities. DFAS uses amounts reported through the accounting systems and information collected from data calls and from other sources to compile the annual financial statements. The compilation process is complicated because much of the financial data submitted by DoD

field accounting sites to the DFAS central accounting sites are not generated by integrated, transaction-driven, general ledger accounting systems. Field accounting sites process accounting entries into the DFAS accounting systems by manual entries and system-generated entries. The field accounting sites receive financial information from DoD entities.

There are 25 DFAS locations plus other field accounting sites operated by DoD components. The central accounting sites are located at DFAS Cleveland, Columbus, Denver, Indianapolis, and Kansas City. Field accounting sites are located around the world and collocated at DFAS Cleveland, Columbus, Denver, and Indianapolis. Not all field accounting sites are operated by DFAS. For example, the U.S. Army Corps of Engineers operates the field accounting office in Millington, Tennessee.

DoD Agency-Wide Financial Statements. The DoD Agency-Wide financial statements for FY 2000 identified total program costs of $374.9 billion and total earned revenue of $27.4 billion for a total net cost-of-operations of $347.5 billion. In addition, DoD reported total assets of $616.7 billion, total liabilities of $1,002.8 billion, and total budgetary resources of $656.1 billion. The total DoD assets did not include about $700 billion in assets identified as National Defense property, plant, and equipment, which were included as supplementary stewardship information in the financial statements.

Reason for the Audit. As in prior years, DoD auditors could not express an opinion on the FY 1999 and FY 2000 DoD Agency-Wide Financial Statements. DoD did not provide sufficient, reliable information for the auditors to evaluate management's assertions or to verify reported amounts. Because internal control weaknesses, compilation problems, lack of audit trails, and financial management system deficiencies persist, the audit community could not verify material line item amounts reported on financial statements. For example, the DFAS central accounting sites processed at least $7.6 trillion in FY 1999 and $4.5 trillion in FY 2000 in department-level accounting entries to DoD component financial data. Those accounting entries affected the reliability of the DoD Agency-Wide financial statements. Table 1 provides a comparison of the FY 1999 and the FY 2000 data.

Table 1. Comparison of Department-level Accounting Entries
(in trillions)

Classification	FY 2000	FY 1999
Supported entries	$2.8	$3.5
Unsupported entries	$1.2	$2.3
Entries not reviewed	$0.5	$1.8
Total	**$4.5**	**$7.6**

Because much of the data that culminated in the FY 1999 results reported by the central accounting sites originated below the central accounting site level, we determined that a review of processes used at the field accounting sites to compile financial information and related internal controls was warranted. Review of the processes and internal controls could provide insight on other problems related to these department-level accounting entries.

Objectives

Our overall objective was to determine whether the FY 2000 DoD Agency-Wide Financial Statements were prepared in accordance with Office of Management and Budget (OMB) Bulletin No. 97-01, "Form and Content of Agency Financial Statements," October 16, 1996, as amended. As part of the objective, we were to determine whether DoD field accounting sites compiled and submitted accurate and reliable financial information to the DFAS central accounting sites. We also evaluated the adequacy of internal controls that were in place and operating during the preparation of the financial information. Appendix A discusses the scope and methodology related to the audit objectives, the review of the management control program, and prior audit coverage.

Compilation of Financial Information

The field accounting sites were not processing and reporting data that were accurate and reliable to the DFAS central accounting sites. Specifically, field accounting sites made accounting entries totaling about $19.5 billion that were not supported and reported financial information with about $0.5 billion in abnormal balances. Two examples are:

- DFAS Omaha made unsupported accounting entries totaling about $11.6 billion to U.S. Transportation Command Working Capital Fund records, and

- Defense Agency Financial Services Office* reported $233.8 million (net) in abnormal balances for the Other Defense Organizations General Fund.

DoD guidance for preparing journal vouchers and correcting abnormal balances was not followed because of the lack of personnel training and local operating procedures. DoD field accounting site personnel made accounting entries that were not properly reviewed and approved. DoD guidance for approving journal vouchers and disclosing abnormal balances was also inadequate. In addition, there was no mechanism to ensure that field accounting offices compiled financial information in accordance with DoD requirements. As a result, the DFAS central accounting sites received unreliable data to prepare the FY 2000 DoD Agency-Wide Financial Statements.

Guidance for Compiling Financial Information

The Joint Financial Management Improvement Program and OMB publications address internal controls, policies, and procedures for recording, compiling, and reporting financial information. Appendix B provides details on specific guidance on accounting and internal controls. DoD Regulation 7000.14-R, "DoD Financial Management Regulation," and DFAS guidance implement these policies and procedures.

DoD Financial Management Regulation. The DoD Regulation 7000.14-R, volume 6A, "Reporting Policy and Procedures," February 1996, as revised through April 2000, provides guidance on the responsibilities of DFAS and its customers regarding financial reports and the treatment of transactions from which the financial data in the reports are derived. DoD Regulation 7000.14-R, volume 6B, "Form and Content of the Department of Defense Audited Financial Statements," December 2000, provides guidance on the preparation and

* The Defense Agency Financial Services Office at Defense Finance and Accounting Services Indianapolis provides accounting support for 18 Other Defense Organizations.

presentation of DoD financial statements. DoD Regulation 7000.14-R provides additional guidance on researching abnormal balances and making adjusting entries.

Supporting Accounting Entries. DoD Regulation 7000.14-R requires that all accounting entries be adequately supported and justified in writing in the official accounting records. Documentation related to the accounting entry must include the rationale and justification, the detail numbers and dollar amounts of errors or conditions that are associated with the transactions or records that are proposed for adjustment, and name and position of the approving official. Further, the guidance states that the documentation must provide an adequate audit trail to the adjusted or corrected transactions.

Abnormal Balances. DoD Regulation 7000.14-R requires that financial reports be reviewed for abnormal balances, mathematical accuracy, correct internal relationships for amounts that are interdependent, and unusual trends over multiple time periods. When deficiencies are identified, they must be researched and resolved. However, DoD Regulation 7000.14-R only requires disclosing abnormal balances included in Accounts Receivable or abnormal balances that affect amounts on the Statement of Budgetary Resources.

DFAS Guidance. DFAS has issued guidance that supplements the guidance in DoD Regulation 7000.14-R. On October 28, 1999, DFAS issued a memorandum on the subject of "Journal Voucher Guidance," that provided guidance on the use and preparation of journal vouchers. That specific guidance included requirements for documenting, reviewing for accuracy, and approving journal vouchers. On August 2, 2000, DFAS issued another memorandum on the same subject providing guidance that incorporated and emphasized the requirements specified in the October 28, 1999, memorandum. The journal voucher documentation and approval requirements specified in the August 2, 2000, guidance was retroactive to October 1, 1999, for certain journal vouchers. Appendix B provides additional details on the DFAS guidance.

Reliability of Financial Information

DoD field accounting sites did not process and report data that were accurate and reliable to the DFAS central accounting sites. We reviewed the compilation of trial balance data at 13 field accounting sites. The trial balances are not only used to provide financial data to the DFAS central accounting sites, but they are also part of an important quality control process. The control is to identify deficiencies or abnormalities in the financial information. The field accounting sites made adjusting accounting entries to trial balance data to correct errors or add additional financial information. However, 10 of the field accounting sites made $19.5 billion in accounting entries that were not adequately supported and reported trial balance data with $0.5 billion in abnormal balances. Deficiencies were not found at three of the field accounting sites: DFAS Pacific (Ford Island), DFAS San Antonio, and Osan Regional Accounting and Finance Office. The details of the results of our reviews are discussed in Appendix C.

Accounting Entries. The field accounting sites made entries that were not adequately supported. The lack of adequate support ranged from no supporting documentation to inadequate explanations for why an accounting entry was made. Other accounting entries were made that were not in accordance with Generally Accepted Accounting Principles. As a result, financial information submitted to the DFAS central accounting sites was inaccurate and unreliable. The following discusses examples of unsupported accounting entries.

- DFAS Cleveland made $4.13 billion in accounting entries to adjust variances between DFAS Norfolk data and to post DFAS Norfolk customer data because the customer did not meet year-end reporting deadlines. DFAS Norfolk made $163 million in accounting entries to adjust variances between two sources of data and for accrued liabilities. Those year-end accounting entries were made to the FY 2000 Navy General Fund financial data and were processed without sufficient documentation.

- DFAS Norfolk made $5.2 billion accounting entries to the Navy Working Capital Fund March 31, 2000, general ledger of which $3.1 billion (or 59.6 percent) were not adequately supported. Accounting entries were recorded based on a journal voucher; however, supporting documentation was either missing or incomplete. Also, the journal vouchers did not have an adequate audit trail.

- DFAS Omaha made $12.6 billion in accounting entries to the March 2000 accounting records of the U.S. Transportation Command, Other Defense Organizations Working Capital Fund, of which $11.6 billion (92.1 percent) were not adequately supported. The supporting documentation was nonexistent, incomplete, or did not support the amount of the accounting entry.

- DFAS San Bernardino made $1.2 billion in accounting entries to the FY 2000 Air Force General Fund trial balance data. The Air Force Audit Agency auditors reviewed $310.5 million of the accounting entries of which $241.1 million (77.6 percent) were not adequately explained or documentation was not attached.

- DFAS San Bernardino made $2.3 billion in accounting entries to the Air Force Working Capital Fund financial data in March and September 2000. Air Force Audit Agency auditors reviewed $14.4 million of the accounting entries of which $3.2 million (22.2 percent) were not adequately supported. Sufficient documentation was not provided to support the journal vouchers, or documentation was completely missing.

- DFAS St. Louis made $211.5 million in unsupported adjustments to force the Army General Fund general ledger data to agree with status data as of September 30, 2000. DFAS St. Louis personnel did not perform research to determine which file, general ledger, or status was correct.

Abnormal Balances. Four of the field accounting sites either processed abnormal balances in the financial data used to prepare trial balances or made unsupported adjustments that canceled the effects of abnormal balances. The abnormal balance can be canceled by making an unsupported or improper adjustment that forces the account to a normal balance. Also, adjustments were erroneously made that created abnormal account balances. An account balance is abnormal when the reported balance does not comply with the normal debit or credit balance established in the general ledger chart of accounts. Abnormal balances are indicators of potentially material accounting errors. The true problem could be much greater than the amount of the abnormal balance. For example, a trial balance could include a general ledger account with an abnormal balance of $10 million when the correct balance is $300 million. This would result in the financial statements being understated by $310 million. When such balances of substantial size are included in the financial statements, they may materially affect the accuracy and reliability of the statements. The following discusses the abnormal balances found at the field accounting sites.

- The Defense Agency Financial Services Office at DFAS Indianapolis prepared trial balances that included 29 abnormal general ledger account balances totaling $233.8 million on March 31, 2000, for the Other Defense Organizations General Fund financial data. The Defense Agency Financial Services Office prepared accounting entries to correct transaction errors created in prior reporting periods, but recorded the correcting entries to the wrong general ledger accounts for Other Defense Organizations General Fund. Instead of recording the correcting entries to general ledger account 7400, Prior Period Adjustments, the accounting entries were recorded to general ledger accounts that only reported transactions for the current period. As a result, the correcting entries were not consistent with Generally Accepted Accounting Principles, and they created abnormal balances on the trial balance data.

- DFAS Norfolk prepared trial balances containing 59 abnormal general ledger account balances totaling $87.2 million on September 30, 2000, for the Navy General Fund financial data. These abnormal account balances are related to accounts payable and undelivered orders and were created when DFAS Norfolk converted to a new accounting system in the beginning of FY 1998.

- DFAS St. Louis made $85.6 million in temporary unsupported adjustments to eliminate abnormal undelivered orders balances from the September 30, 2000, status data before reporting the Army General Fund financial data to the central accounting site at DFAS Indianapolis. An abnormal undelivered order occurs when total expenses exceed total obligations. The abnormal balances were neither corrected in Army General Fund accounting records nor were the temporary adjustments researched. Instead, DFAS St. Louis personnel made the temporary accounting entries to status data (increasing undelivered orders and decreasing accounts payable) to eliminate the abnormal balances before sending reports to DFAS Indianapolis.

- The Washington Headquarters Services prepared trial balances containing abnormal balances totaling about $74.9 million (net) for DFAS Indianapolis on March 31, 2000. The Washington Headquarters Services prepared accounting entries to correct transaction errors created in prior reporting periods but recorded the correcting entries to the wrong general ledger accounts for the Other Defense Organizations General Fund. Instead of recording the correcting entries to general ledger account 7400, Prior Period Adjustments, the accounting entries were recorded to general ledger accounts that only reported transactions for the current period. As a result, the correcting entries were not consistent with Generally Accepted Accounting Principles and created abnormal balances on their trial balance data.

Operating Procedures and Controls

The field accounting sites did not follow the requirements in DoD Regulation 7000.14-R and DFAS guidance to prepare journal vouchers and to correct abnormal balances. The lack of adequate personnel training and local operating procedures contributed to the inability of field accounting sites to comply with DoD guidance. Two field accounting sites did not have local operating procedures. Accounting entries, made to correct or add financial information, were not properly reviewed or approved to ensure that DoD guidance was followed. In addition, the guidance in DoD Regulation 7000.14-R and DFAS guidance on making accounting entries and disclosing abnormal balances needed improvement. In order to improve these internal controls at the field accounting sites the Director, DFAS should establish an implementation strategy to provide guidance, to include training, and to correct the deficiencies discussed in this report.

Execution of Existing Guidance. The guidance contained in the DoD Regulation 7000.14-R and DFAS memorandum were not followed by the field accounting sites. As discussed under the "Reliability of Financial Information" section, accounting entries were not adequately supported and approved, and abnormal balances in financial data were not corrected. For example, DFAS San Bernardino personnel who performed the accounting for the Air Force Working Capital Fund were aware of the procedures for making and supporting accounting entries, but they did not consistently follow the requirements because of the heavy workload. DFAS Omaha maintained the accounting records for the U.S. Transportation Command but did not follow the DoD Regulation 7000.14-R or DFAS guidance for supporting journal vouchers. Not all DFAS field accounting sites were aware of the requirements for preparing, supporting, and approving journal vouchers. For example, DFAS Norfolk management indicated they were unaware of the requirement to prepare journal vouchers or of the DFAS guidance. In addition, two other factors contributed to the lack of compliance with DoD guidance: the lack of staff training and local operating procedures.

Staff Training. The Air Force Audit Agency identified six field accounting sites that did not prepare journal vouchers correctly. Of the $693.3 million in journal vouchers reviewed, $322.2 million (46.5 percent) were not properly prepared (see Appendix C for more detail). The Air Force Audit Agency attributed part of the problem to the lack of training of accounting technicians on preparing and supporting journal vouchers. Personnel should have the proper training and exposure to DoD guidance. Without such training, staff will not have the skills, knowledge, and competencies to properly support and approve accounting entries or to correct abnormal balances.

Local Operating Procedures. Table 2 shows two field accounting sites that did not have adequate local operating procedures and two field accounting sites that had no local operating procedures. Written local operating procedures were reviewed at all locations except DFAS St. Louis. As a result, the field accounting site accountants did not have detailed guidance for preparing and supporting accounting entries. This guidance, or lack thereof, also applies to researching and correcting abnormal balances.

Table 2. Field Accounting Sites Without Adequate Local Operating procedures

1. The Defense Agency Financial Services Office had prepared written standard operating procedures that provided specific guidance; however, the written procedures did not provide detailed guidance for performing reviews of trial balances and correcting abnormal balances.

2. DFAS Norfolk had two separate divisions performing accounting for Navy customers. The working capital fund division had three branches, one for each of the Navy shipyards. Two of the three working capital fund branches did not have operating procedures. The general fund division did not have any operating procedures.

3. DFAS Omaha did not issue a local procedure implementing the October 1999 DFAS journal voucher guidance until 10 months later in August 2000.

4. The Washington Headquarters Services Allotment Accounting System provided financial information to the Defense Agency Financial Services Office; however, the system's users manual did not provide all the information needed on performing queries.

Having local operating procedures is particularly important given the operational differences between and within the field accounting sites. In addition, local operating procedures are needed so personnel know how to properly research financial transactions and to obtain information from the financial management systems. The central accounting site at DFAS Indianapolis is an example where developing local operating procedures has improved operations. DFAS Indianapolis has developed a local manual for the preparation of re-occurring journal vouchers. The manual has assisted DFAS Indianapolis in accomplishing

two important tasks. First, the manual has reduced the amount of effort it takes to properly support a journal voucher. The manual contains common language and methods to support routine journal vouchers. Second, the manual provides the methodology for personnel to learn how to properly support a journal voucher. The field accounting sites could use a similar methodology.

Journal Voucher Review and Approval. DoD Regulation 7000.14-R requires that journal vouchers be properly reviewed and approved. The DFAS Arlington Director for Accounting issued a memorandum on August 2, 2000, that emphasized the requirement that journal vouchers had to be approved and reviewed. The August 2000 memorandum specified that the guidance was retroactive to October 1, 1999, for certain journal vouchers. A proper approval is evidence that a supervisor or higher level authority has reviewed the journal voucher for legitimacy and for adequate support. Table 3 shows the field accounting sites where accounting entries were made without proper approval and review. For example, DFAS Omaha personnel did not obtain approval for $0.2 billion of the $11.6 billion in unsupported accounting entries made to U.S. Transportation Command financial data. Some journal vouchers processed by DFAS Norfolk had no approval signature. Other journal vouchers were prepared and approved by the same person indicating inadequate internal controls. The procedures for reviewing journal vouchers were reviewed at 10 of 13 of the field accounting sites visited during the audit.

Table 3. Field Accounting Sites Where Journal Vouchers Were Not Properly Approved

1. DFAS Dayton
2. DFAS Europe (Ramstein)
3. DFAS Japan (Yokota)
4. DFAS Limestone
5. DFAS Norfolk
6. DFAS Omaha
7. DFAS San Bernardino

Existing Guidance. The existing guidance contained in DoD Regulation 7000.14-R and issued by DFAS needed improvement. Specifically, procedures for approving journal vouchers and for researching and disclosing abnormal balances need to be clarified.

Approval Procedures. DoD Regulation 7000.14-R, which addresses requirements for supporting and approving journal vouchers, was confusing. DoD Regulation 7000.14-R stated only that an approval was required but not when the approval should be made. This omission allowed DFAS to weaken internal controls by adopting a lower standard for approving journal vouchers. The DFAS August 2, 2000, journal voucher guidance improperly allowed journal vouchers to be submitted and approved 5 work days before all supporting documentation was identified and made available to the approving official. The DFAS guidance, however, made a contradicting statement that the approval of the journal vouchers constituted acceptance of the supporting documentation. No journal voucher should be submitted for approval until all supporting documentation is made available to the approving official. Without the supporting documentation, the approving official is unable to make an informed decision on whether an adjusting accounting entry is correct, valid, or both. As a result, DoD Regulation 7000.14-R should be modified to clarify that all documentation supporting a journal voucher should be attached when it is submitted for approval.

Abnormal Balance Research and Disclosure. DoD Regulation 7000.14-R requires the research of abnormal balances, and if the correct balance can be determined, then the accounting records should be adjusted. However, DoD Regulation 7000.14-R was not clear on how unresolved abnormal balances should be treated and reported, particularly unresolved abnormal balances at the field accounting sites. The field accounting sites have cleared unresolved abnormal balances by an unsupported adjustment, thus canceling the effects of the abnormal balances to the accounts. As a result, the unresolved abnormal balances were not reported to the central accounting sites as a note to the trial balances where they could potentially be corrected or properly resolved. In addition, the unresolved abnormal balances were not disclosed on the Notes to the Principal Statements. For example, the unresolved abnormal balances in the accounting records processed by DFAS St. Louis were not properly researched or disclosed before being reported. Under the concept of reliability, the Statements of Federal Financial Accounting Concepts and Standards No. 1, September 2, 1993, states that "information presented should be verifiable and free from bias and should faithfully represent what it purports to represent." Making unsupported accounting entries to accounts with abnormal balances produces unreliable information. DoD Regulation 7000.14-R should require that if valid corrections cannot be made to abnormal balances, the field accounting sites should be required to report those unresolved abnormal balances to the central accounting sites.

The amounts of and explanations for abnormal balances should be included in the DoD Agency-Wide Notes to the Principal Financial Statements. DoD Regulation 7000.14-R, volume 6B, chapter 10, "Form and Content of the Department of Defense Audited Financial Statements" only requires disclosing abnormal balances included in Accounts Receivable or abnormal balances that affect amounts on the Statement of Budgetary Resources. By excluding other abnormal balances, material amounts of abnormal balances may be included in the DoD Agency-Wide financial statements without disclosure. The report section on "Abnormal Balances" contains additional examples. Unresolved abnormal balances should be disclosed in the notes if the financial statement line

is material regardless of the amount of the abnormal balance and regardless of the statement line or note that was affected by the abnormal balance. Inspector General, DoD, Report No. D-2001-163 "Accounting Entries Made in Compiling the FY 2000 Financial Statements for the Working Capital Funds of the Air Force and Other Defense Organizations," July 26, 2001, recommended that DoD Regulation 7000.14-R be revised to require that abnormal balances be reported in the accounting records. Because the working capital funds of the Air Force and Other Defense Organizations audit report did not discuss the disclosure of unresolved abnormal balances in the footnotes, we are making the recommendation in this report.

Implementation Strategy. DoD did not have a mechanism to ensure that field accounting offices compiled financial information in accordance with DoD requirements. Neither the USD (Comptroller) nor DFAS had developed plans for corrective action addressing the accounting problems at the field accounting sites and provided the mechanisms that ensure compliance with and implementation of DoD Regulation 7000.14-R and DFAS guidance. Although the Director, DFAS had issued guidance on the preparation and supporting accounting entries, further implementing guidance was required. The DFAS guidance also did not apply to field accounting sites operated by other DoD entities such as the Washington Headquarters Service. The DFAS guidance only addressed the use and preparation of journal vouchers; the guidance did not address researching and resolving abnormal balances. An implementation strategy should be established and require that all field accounting sites establish local operating procedures, which as a minimum should:

- address the proper preparation and support of journal vouchers to include DFAS guidance,
- require the appropriate approval for all accounting entries made,
- emphasize the use of the accounting system to research detailed transactions that support general ledger account balances, and
- prescribe specific analytical techniques for detecting and researching abnormal balances in trial balance data.

The implementation strategies should require formal training for all staff involved in the preparation of accounting entries and trial balances. Both management and staff should be knowledgeable about DoD requirements for properly supporting and approving an accounting entry and correcting an abnormal balance.

The implementation strategy should require the Director, DFAS to monitor and follow up on the progress being made by all field accounting sites to include those sites operated by other DoD Components. The Director, DFAS needs to develop an implementation strategy and require that reviews be made of field accounting sites. The results of the reviews should be reported to management addressing the progress being made to correct the deficiencies addressed in this report.

Management Actions Taken

DoD organizations have taken some corrective action. Two field accounting sites, the Washington Headquarters Services and the Defense Agency Financial Services Office, took action to correct deficiencies and improve the accuracy of the trial balance data for FY 2000. They also are updating local operating procedures. DFAS Norfolk is working on correcting its abnormal balances by researching the proper balances. DFAS Denver has plans to review a sample of journal vouchers at field accounting sites that process Air Force financial information. Although such actions are beneficial, there is no assurance that all the significant problems at these field accounting sites will be corrected or corrected for the long-term. For example, one field accounting site did not take prompt action to correct the internal control deficiencies after the Naval Audit Service auditors addressed it in July 2000. Six months later, the Naval Audit Service auditors reviewed $5.6 billion in adjusting accounting entries made to the September 2000 general ledger and found that $2.0 billion (35.7 percent) were unsupported. In addition, there was no assurance that other field accounting sites that were not reviewed during the audit will correct similar internal control deficiencies.

Summary

Because of a lack of adequate and integrated financial management systems, journal voucher accounting entries at the field accounting sites are necessary to input data, correct errors, post and reverse closing entries, correct abnormal balances, and make prior period accounting entries. However, the field accounting sites did not consistently support or provide sufficient explanation for the journal voucher accounting entries they made to financial records. Sufficient effort was not taken to research and correct abnormal balances. Some accounting entries were made that created abnormal balances. In addition, field accounting site personnel did not obtain approval to make accounting entries. Many of the documentation problems identified with journal voucher accounting entries made to financial records can be corrected by attaching adequate support, providing more detailed explanations in the journal voucher, or providing sufficiently detailed audit trails. Unsupported accounting entries at field accounting sites could increase, not decrease, requirements for accounting entries at central accounting sites.

DoD must continue to rely on journal voucher entries and correcting of abnormal balances to prepare the DoD financial statements until an adequate and integrated transaction-driven accounting management system is implemented agency-wide. Until these internal control deficiencies are fully corrected, the FY 2001 and future financial statements prepared for DoD will be misstated. To that end, the Director, DFAS must develop and execute an implementation strategy to correct the deficiencies addressed in this report. The plan will need to address developing local operating procedures, providing formal training to staff, and continuing to monitor progress in correcting the deficiencies. In

related audit reports, the Inspector General, DoD, and the Service audit agencies have addressed issues similar to the findings contained in this report. However, we have limited our recommendations to issues not covered in these reports.

Management Comments on the Finding and Audit Response

Management Comments. The Director for Accounting, DFAS, provided comments to a statement on page 10 of the report regarding $11.6 billion in unsupported accounting entries made by DFAS Omaha. DFAS stated that it had reviewed the journal vouchers for the $11.6 billion in unsupported accounting entries discussed under report section on "Journal Voucher Review and Approval" and found that support was available. However, the documentation was not always attached to the journal voucher when it was provided to the Inspector General, DoD, auditor.

Audit Response. The section titled "Journal Voucher Review and Approval" on page 10 addressed the adequacy of the journal voucher approval and the review process at the field accounting sites. However, DFAS can not support its statement that the journal vouchers that made up $11.6 billion were supported. The Inspector General, DoD, auditors reviewed 277 journal vouchers for $12.6 billion in accounting entries of which $11.6 billion were unsupported. DFAS Denver only reviewed 103 of the 277 journal vouchers processed for the U.S. Transportation Command. In addition, if the supporting documentation was available, the documentation along with the journal vouchers should have been provided to the auditors. Instead, DFAS Omaha personnel tried to convince the auditors that the documentation provided to the auditors was adequate.

Recommendations, Management Comments, and Audit Response

Revised and Renumbered Recommendations. We have deleted draft report Recommendations 2.c., 2.d., 2.e., and 2.f. to establish performance measures and metrics, to monitor field accounting site progress, and to report the results to the USD (Comptroller), and to coordinate the implementation strategies with field accounting sites not under DFAS management. Recommendation 2. was revised by removing the reference to the time-phased action plan and adding the reference to implementation strategy. A new recommendation was made to perform verification reviews and report the results to management and renumbered as Recommendation 2.c.

1. We recommend that the Under Secretary of Defense (Comptroller) revise DoD Financial Management Regulation, DoD Regulation 7000.14-R to require that:

a. Approving officials be provided with all required supporting documentation at the time each journal voucher is submitted for approval.

Management Comments. The USD (Comptroller) agreed with the recommendation and stated that DoD Regulation 7000.14-R, volume 6A, chapter 2, would eventually be revised. The USD (Comptroller) comments also stated that detailed system reports may be too cumbersome to provide as supporting documentation for a journal voucher; however, a summary report will be provided with the journal voucher and the detailed report would be made available.

Audit Response. The USD (Comptroller) comments are partially responsive to the recommendation. Comments to the final report should specify the date when DoD Regulation 7000.14-R, volume 6A, chapter 2, will be revised.

b. Field accounting sites research all abnormal balances on a continuous monthly basis and make corrections if the actual account balances can be properly determined. If abnormal balances can not be resolved, require that the abnormal balances be reported by field accounting sites as a footnote to the trial balances provided to the central accounting sites.

Management Comments. The USD (Comptroller) stated that in some cases the funds holder, rather than the field accounting site, might be responsible for performing the required research. Unresolved abnormal balances are currently footnoted on the trial balances submitted to the DFAS centers.

Audit Response. The USD (Comptroller) comments were not responsive to the recommendation. The USD (Comptroller) did not state whether DoD Regulation 7000.14-R would be changed to require that all abnormal balances be researched and corrected or disclosed in the trial balance footnote if the abnormal balances are not resolved. As discussed in Appendix C, two field accounting sites did not report abnormal balances in the trial balance footnotes at the time of our review. Another field accounting site made unsupported adjustments to hide abnormal balances, as a result DFAS could not footnote abnormal balances. We request that the USD (Comptroller) provide additional comments that provide planned corrective actions and the date that action will be completed.

c. Field accounting sites disclose the amounts of unresolved abnormal balances for all financial statement lines impacted in the Notes to the Principal Statements.

Management Comments. The USD (Comptroller) stated that the field accounting site is not the appropriate level for the resolution of abnormal balances. Also, the USD (Comptroller) stated that Note 1 of the Department's financial statements, "The (reporting entity) is unable to fully implement all elements of generally accepted accounting principles...," is sufficient disclosure.

Audit Response. The USD (Comptroller) comments are not responsive to the intent of the recommendation. The amount of unresolved abnormal balances must be rolled up from the field accounting sites or the true extent of abnormality will be understated on the DoD Agency-Wide financial statements and because the abnormal amounts from one activity will be offset by normal account balances by

another activity. We disagree with the USD (Comptroller) comments that Note 1 of the financial statements is adequate disclosure for abnormal balances. Note 1 does not provide the scope and the magnitude of the abnormal balances that otherwise would be hidden by offsets of normal balances. Also, Note 1 does not include the financial statement line or the footnote that would be affected by the abnormal balance.

2. We recommend that the Director, Defense Finance and Accounting Service, develop and execute an implementation strategy to correct the deficiencies identified in the report and monitor the progress. As a minimum, the plan should:

a. Require and ensure the field accounting sites develop local operating procedures that reflect current DoD guidance and that reflect the local operational environment. As a minimum, these procedures should include the items discussed in the section on "Implementation Strategy."

b. Require specific training for all staff involved in the preparation of accounting entries and trial balances.

c. Perform verification reviews of compliance with applicable policies, procedures, and journal voucher guidance and issue reports to management on the results of the reviews.

Management Comments. DFAS stated that it concurred in principle with the recommendations. DFAS stated that it did not believe that a time-phased action plan was appropriate. Instead DFAS stated that draft implementation strategies had been developed that address some of the issues raised in the report. Each strategy contains milestones that incorporate the intent of the recommendation. Also, DFAS did not believe that performance measures and detailed metrics were necessary to ensure compliance with journal voucher guidance because it would be labor-intensive to develop and implement performance measures and metrics. DFAS stated that the DFAS Operational Review Program would perform verification of compliance with applicable policies, procedures, and journal voucher guidance and issue reports to management on the results of the reviews. In addition, DFAS will take actions to encourage the field accounting sites to update and implement local operating procedures and to provide comprehensive journal voucher training to field accounting site personnel. The estimated completion of DFAS action is September 30, 2001.

Audit Response. We consider the DFAS comments responsive. As result of the DFAS comments, we made changes to the recommendations as discussed in the section on "Revised and Renumbered Recommendations." Because the actions proposed by DFAS are adequate, no additional comments are required.

Appendix A. Audit Process

Scope

As part of our effort to determine whether the FY 2000 DoD Agency-Wide Financial Statements were presented fairly in accordance with OMB Bulletin No. 97-01, we reviewed processes used by the DoD field accounting sites to compile and report financial information to the DFAS central accounting sites. In addition, we reviewed FY 2000 financial information to determine accuracy and reliability. This audit report relies on work performed by auditors from the Inspector General, DoD, the Army Audit Agency, the Naval Audit Service, and the Air Force Audit Agency. We have reviewed their reports and working papers and consider their evidence sufficient, relevant, and competent. See Appendix C for detail on the work performed by each audit agency. We performed the audit at 13 field accounting sites: Defense Agency Financial Services Office at DFAS Indianapolis, DFAS Dayton, DFAS Europe (Ramstein), DFAS Japan (Yokota), DFAS Limestone, DFAS Norfolk, DFAS Omaha, DFAS Pacific (Ford Island), DFAS San Antonio, DFAS San Bernardino, DFAS St. Louis, Osan Regional Accounting and Finance Office, and Washington Headquarters Services. These 13 field accounting sites made accounting entries totaling about $19.5 billion that were not supported and reported financial information with about $0.5 billion in abnormal balances.

DoD-Wide Corporate-Level Government Performance and Results Act Coverage. In response to the Government Performance and Results Act, the Secretary of Defense annually establishes DoD-wide corporate-level goals, subordinate performance goals, and performance measures. This report pertains to achievement of the following goal, subordinate performance goal, and performance measures:

- **FY 2001 DoD Corporate-Level Goal 2:** Prepare now for an uncertain future by pursuing a focused modernization effort that maintains U.S. qualitative superiority in key warfighting capabilities. Transform the force by exploiting the Revolution in Military Affairs, and reengineer the Department to achieve a 21st century infrastructure. **(01-DoD-02)**

- **FY 2001 Subordinate Performance Goal 2.5**: Improve DoD financial and information management. **(01-DoD-2.5)**

- **FY 2001 Performance Measure 2.5.1**: Reduce the number of noncompliant accounting and finance systems. **(01-DoD-2.5.1.)**.

- **FY 2001 Performance Measure 2.5.2**: Achieve unqualified opinions on financial statements. **(01–DoD-2.5.2.)**.

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 objectives and goals.

- **Financial Management Area. Objective:** Reengineer DoD business practices. **Goal:** Standardize, reduce, clarify, and reissue financial management policies. **(FM 4.1)**

- **Financial Management Area. Objective:** Strengthen internal controls. **Goal:** Improve compliance with the Federal Managers' Financial Integrity Act of 1982. **(FM 5.3)**

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

Methodology

We reviewed field accounting site financial reporting processes to include receipt of financial data from DoD reporting entities, preparation of trial balance data, and the preparation and transmittal of financial reports to the DFAS central accounting sites. We reviewed accounting adjustments and trial balance data for field accounting sites that processed Army, Navy, Air Force, and Other Defense Organizations General Fund and Navy, Air Force, and Other Defense Organizations Working Capital Fund financial information. Appendix C contains more detail on what the Inspector General, DoD, the Army Audit Agency, the Naval Audit Service, and the Air Force Audit Agency auditors reviewed. The review included the following.

- Local operating procedures at 12 of the 13 DoD field accounting sites. The Army Audit Agency did not have sufficient resources to adequately review the local operating procedures at DFAS St. Louis.

- Review of the adequacy of supporting documentation and supervisory review for accounting entries made by 10 of the 13 DoD field accounting sites to financial data. Auditors focused their review on determining the causes for abnormal balances at the Defense Agency Financial Services Office at DFAS Indianapolis, DFAS St. Louis, and Washington Headquarters Service.

- Assessment of whether the processes used by the field accounting sites to make accounting entries and compile trial balance data were in compliance with applicable laws and regulations including accounting standards and accounting system requirements. We specifically reviewed the adequacy of the DoD Regulation 7000.14-R and DFAS guidance issued October 1999, and August 2, 2000, relating to accounting entries and abnormal balances.

- Conducting interviews with personnel at the DoD field accounting sites, DFAS central accounting sites, DFAS Arlington, and the Office of the USD (Comptroller).

Computer-Processed Data. We could not rely on the computer-processed data used by the field accounting sites to process financial information. DoD financial management systems were unreliable. DoD addressed deficiencies in its financial management systems in the DFAS Annual Statement of Assurance, the DoD Financial Management Improvement Plan, and the management representation letter for the DoD financial statements for FY 2000. Unreliable computer-processed data were used in preparing the accounting entries and the financial statements addressed in this report because they were the only data available. However, when the data are reviewed in context with other available evidence, we believe that the opinions, conclusions, and recommendations in this report are valid. Specifically, we reviewed hard copy journal vouchers and attached documentation when available for accounting entries. We will continue to review the adequacy of existing and proposed financial management systems.

Audit Type, Dates, and Standards. We performed this financial-related audit from April 2000 through April 2001. We conducted this audit in accordance with generally accepted Government auditing standards except we were unable to obtain an opinion on our system of quality control. The most recent external quality control review was withdrawn on March 15, 2001, and we will undergo a new review. Accordingly, we included tests of management controls, as we considered necessary.

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

Management Control Program Review

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996, require DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of the Review of the Management Control Program. As part of our overall objective to determine whether the DoD Agency-Wide financial statements were presented fairly, we also reviewed the adequacy of management controls, which included the management control program, related to the preparation of the DoD Agency-Wide financial statements. We also reviewed management's self-evaluation applicable to those controls.

Adequacy of Management Controls. We identified a material management control weakness as defined by DoD Instruction 5010.40. The management controls were deficient over the processing and reporting of financial information by the field accounting sites. Recommendations 1.a., 1.b., 1.c.,

2.a., 2.b., and 2.c. in this report, if implemented, will improve the management controls. A copy of the report will be provided to the senior official responsible for management controls in DoD.

Adequacy of Management's Self-Evaluation. DFAS reported the general ledger and financial reporting as a material weakness citing that the Financial Management Improvement Plan addressed system problems and fixes. Management reported the lack of adequate financial management systems as a management control deficiency and as an impediment to an audit opinion in the DoD Financial Management Improvement Plan. The USD (Comptroller) also acknowledged in its management representation letter for the FY 2000 DoD Agency-Wide Financial Statements that DoD financial management systems do not comply substantially with Federal accounting standards, Federal system requirements, and the U.S. Government Standard General Ledger at the transaction level.

Prior Coverage

The General Accounting Office and the Inspector General, DoD, have conducted multiple reviews related to financial statement issues. General Accounting Office reports can be accessed on the Internet at http://www.gao.gov, and Inspector General, DoD, reports can be accessed on the Internet at http://www.dodig.osd.mil/audit/reports.

Appendix B. General Guidance

This appendix summarizes the guidance pertaining to accounting entries and abnormal balances. The Joint Financial Management Improvement Program and OMB publications address internal controls, policies, and procedures for recording, compiling, and reporting financial information. DFAS has issued guidance on the use, preparation, and support of journal voucher accounting entries.

Joint Financial Management Improvement Program. The Joint Financial Management Improvement Program publications contain the specific requirements for financial management systems. JFMIP-FFMSR-0, "Framework for Financial Management Systems," January 1995, defines the framework for establishing and maintaining financial management systems to support management and deliver programs of the Federal Government. The publication establishes financial data integrity control that imposes a discipline on tracking of effects on budgetary resources, financial position, and cost of activities. Specifically the publication requires:

- transaction tracking which is the capture, recording, and reporting of transactions from individual events occurring for necessary financial accountability;
- those data are only available to authorized users when needed; and
- approval controls, which are designed to provide reasonable assurance that appropriate individuals approve recorded transactions.

The Joint Financial Management Improvement Program publication, JFMIP-SR-99-4, "Core Financial System Requirements," February 1999, provides the common processing routines, supports common data for critical financial management functions affecting the entire agency, and maintains the required financial data control over financial transactions, resource balances, and other financial systems. This publication requires agencies to use account titles and definitions, chart of accounts, information processing, and subsidiary ledger support that is consistent with the Standard General Ledger, now referred to as the U.S. Government Standard General Ledger. In addition, it should:

- provide the capability to add, modify, and maintain editing and posting rules through control by authorized personnel;
- provide audit trails to trace transactions from source documents, original input, other systems, system-generated transactions, and internal assignment transactions through the system; provide details to support account balances; and provide audit trails to trace

transactions from their point of origination through to their summarization to the financial statements and the reverse;

- provide audit trails to identify changes made to system parameters and tables that would affect the processing of financial transactions;
- provide audit trails that identify document input, change, approval, and deletions by originator, and provide audit trails to identify any system changes, as well as document progress and changes;
- ensure that all transactions are handled consistently to ensure the validity of audit trails and transactions, regardless of their point of origin;
- provide a method for archiving data that will be needed for audit trails and a method for easily accessing any documents that are needed in the future; and
- provide an adequate audit trail which is critical to providing support for transactions and balances maintained by the core financial system.

The key goal of the core financial system is to provide "complete, reliable, consistent, timely, and useful financial management information on operations to enable central management agencies, individual operating agencies, divisions, bureaus and other sub-units to carry out their fiduciary responsibilities. The fiduciary responsibilities are to deter fraud, waste, and abuse of resources, and facilitate efficient and effective delivery of programs by relating financial consequences to program performance."

Office of Management and Budget Circular No. A-123. Office of Management and Budget Circular No. A-123, "Management Accountability and Control," June 21, 1995, provides guidance to Federal managers on improving the accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting, and reporting on management controls. OMB Circular No. A-123 requires Federal managers to promptly record, properly classify, and account for transactions to prepare timely and reliable accounts and reports. To effectively accomplish those responsibilities, Federal agencies are required to prepare written procedures.

DFAS Guidance. On October 28, 1999, the DFAS issued a memorandum, subject "Journal Voucher Guidance," that provided guidance on the use and preparation of journal vouchers; specifically, the guidance included requirements for documenting, reviewing for accuracy, and approving journal vouchers. On August 2, 2000, DFAS issued another memorandum on the same subject, providing guidance that incorporated and emphasized the requirements specified in the October 28, 1999, memorandum. The journal voucher documentation and approval requirements specified in the

August 2, 2000, guidance were retroactive to October 1, 1999, for certain journal vouchers. Specifically, the guidance states that all journal vouchers must be:

- sequentially numbered by entity and reflected in a journal voucher log,
- identified by specific journal voucher category,
- reviewed to ensure proper recording of entries,
- adequately documented to support the validity and the amount of the transaction,
- authorized and approved by the appropriate approving authority,
- prepared, documented, submitted, approved, and entered employing segregated duties,
- annotated with the name, title, and office symbol of both the preparer and approver, and
- maintained in a central location and retained for 6 years.

The DFAS guidance provides for a four-level threshold system for journal voucher approval. The following Table shows the threshold levels.

Threshold for Determining Proper Approving Official

Dollar Amount	Approving Official
Under $100 million	Team Leaders, General Fund or Working Capital Fund Reporting Branch
$100 - $500 million	Chief, Procedures and Reporting, Office of Chief Financial Officer
$500 million - $1 billion	Entity Director for Accounting
Over $1 billion	Entity Director

Appendix C. Summary of Audit Work Performed

We performed this audit with the assistance of the Army Audit Agency, Naval Audit Service, and the Air Force Audit Agency. We performed the audit at 13 field accounting sites: Defense Agency Financial Services Office at DFAS Indianapolis, DFAS Dayton, DFAS Europe (Ramstein), DFAS Japan (Yokota), DFAS Limestone, DFAS Norfolk, DFAS Omaha, DFAS Pacific (Ford Island), DFAS San Antonio, DFAS San Bernardino, DFAS St. Louis, Osan Regional Accounting and Finance Office, and Washington Headquarters Services. This appendix summarizes the work performed by the Service audit agencies and Inspector General personnel at the 13 field accounting sites.

Army Audit Agency

Army General Fund. DFAS St. Louis provides financial and accounting support for U.S. Army Materiel Command's major subordinate commands. The Army Audit Agency auditors evaluated procedures to process, correct, and report financial information to DFAS Indianapolis. DFAS St. Louis provides financial information in two data streams, general ledger trial balance data and status data.

Adjustments to General Ledger. DFAS St. Louis made $211.5 million in unsupported adjustments to force the general ledger data to agree with status data as of September 30, 2000. DFAS St. Louis personnel did not perform research to determine which file, general ledger data, or status data were correct. Historically, status data rather than general ledger data have been the source of financial information for the Army. DFAS personnel considered status data more reliable than general ledger data. Systems personnel at DFAS St. Louis acknowledged that there were problems in posting transactions to the general ledger in the Standard Operations and Maintenance Army Research and Development System. However, there were too many problems with the status data to assume it was correct as discussed in the following paragraphs.

Adjustments to Status Data Before Reports Are Sent to DFAS Indianapolis. DFAS St. Louis made about $85.6 million in temporary unsupported accounting entries to eliminate abnormal undelivered orders balances from the September 30, 2000, status data before reporting to DFAS Indianapolis. Reports Branch personnel did not conduct research to support these accounting entries before making them; as a result, the abnormal balances were not properly corrected prior to reporting. Undelivered orders are obligations for goods or services for which the payable has not yet accrued. An abnormal or negative undelivered order occurs when total expenses exceed total obligations. Personnel made temporary accounting entries to status data each month to eliminate this condition before sending reports to DFAS Indianapolis.

The accounting entries increased undelivered orders and decreased accounts payable. The accuracy and completeness of the data were questionable because of inadequate procedures DFAS St. Louis personnel followed in processing accounting entries. Improper adjustments eliminated the abnormal balances prior to reporting to DFAS Indianapolis so the abnormal balances were not disclosed in the Notes to the Principal Financial Statements of the Army General Fund or DoD Agency-Wide.

DFAS personnel believed that improper posting of transactions and systems incompatibility were the likely causes for this condition. DFAS St. Louis personnel believed that most of its abnormal undelivered orders occurred because of improper posting of obligations or disbursements. DFAS Indianapolis personnel believed the cause of abnormal undelivered orders was systems incompatibility between the Mechanization of Contract Administration Services System and the Standard Operations and Maintenance Army Research and Development System.

Adjustments to Status Data After Reports Are Sent to DFAS Indianapolis. Reporting and accounting entry procedures caused financial information on DFAS St. Louis' status reports and general ledger trial balances to be out of balance after the data were submitted to DFAS Indianapolis. This out of balance condition contributed to the amount of the Army-wide accounting entry that DFAS Indianapolis made at year-end to force the general ledger accounting data to match the status data. After submitting status and general ledger data to DFAS Indianapolis, DFAS St. Louis personnel made $678 million in adjustments to clear abnormal balance errors in April 2000 status data. Some of the adjustments would have affected the general ledger data; however, DFAS St. Louis personnel did not conduct the necessary research to identify those adjustments and to make related and appropriate adjustments to the general ledger trial balances reported to DFAS Indianapolis.

Naval Audit Service

Navy General Fund. The DFAS Norfolk General Fund Accounting Division is divided into the Ashore Accounting Section and Afloat Accounting Section. Both the Ashore Accounting Section and Afloat Accounting Section performed accounting services (prepared trial balance data) using the Standard Accounting and Reporting System Field Level. After the close of each accounting month and fiscal year-end, DFAS Norfolk electronically transfers trial balance data to the Standard Accounting and Reporting System Claimant Accounting Module at DFAS Cleveland for preparation of Navy General Fund financial statements.

DFAS Cleveland Adjustments. The DFAS Cleveland did not process journal vouchers for FY 2000 year-end accounting entries when preparing General Fund financial statements as required by DFAS guidance and DoD Regulation 7000.14-R. The Naval Audit Service auditors identified 2,795

financial adjustments totaling about $4.13 billion that were processed without journal vouchers and without complete audit trails. These FY 2000 year-end General Fund financial adjustments were for:

- database variances between the DFAS Norfolk Standard Accounting and Reporting System Field Level and DFAS Cleveland Standard Accounting and Reporting System Claimant Accounting Module, and

- additional accounting data input by DFAS Norfolk customers because they were not able to meet year-end trial balance closing deadlines.

DFAS Norfolk Adjustments. DFAS Norfolk had not processed journal vouchers for 140 FY 2000 year-end General Fund accounting entries totaling about $163 million into the Standard Accounting and Reporting System Field Level. The 140 FY 2000 year-end General Fund accounting entries were for: (1) unpaid accrued leave liabilities, (2) database variances between various Trial Balance Reports and Expense Element Reports, and (3) correction of data keypunch errors. DFAS Norfolk management stated they were not aware of the requirement to prepare journal vouchers for accounting entries. Because the documentation was insufficient, there was no evidence that accounting entries were reviewed or approved.

Abnormal Balances. The Naval Audit Service auditors also identified 59 abnormal (negative) general ledger account balances totaling about $87.2 million on September 30, 2000, accounting records that needed to be researched and corrected by DFAS Norfolk. These abnormal balances related to Accounts Payable and Undelivered Orders citing FY 1997 and older appropriations. DFAS Norfolk was in the process of researching and correcting these abnormal balances that were primarily created when DFAS Norfolk converted from the Fleet Resources Accounting Module to the Standard Accounting and Reporting System Field Level at the beginning of FY 1998. The abnormal balances were not disclosed in the Notes of the Principal Statements of the Navy General Fund or the DoD Agency-Wide financial statements.

Navy Working Capital Fund. DFAS Norfolk performs the accounting for the three active Naval Shipyards--Norfolk, Portsmouth, and Puget Sound. The Naval Shipyard financial accounting did not have a compliant and integrated General Ledger financial management system. DFAS Norfolk compiled financial information using Excel spreadsheets from information received from the Navy shipyards by the Shipyard Management Information System, electronic mail, and fax. The lack of a compliant financial accounting system necessitated a work-around and unnecessary duplication of transaction entries in order to prepare and report financial data. These manual processes can result in errors in financial data; are an inefficient use of resources; and increase the risk for inaccurate Department of the Navy Working Capital Fund financial reports.

Journal Voucher Support. The Naval Audit Service auditors found that 44 (for $3.1 billion) of the 121 (for $5.2 billion) journal voucher transactions processed for the Naval Shipyards' March 31, 2000, financial statements by DFAS Norfolk were unsupported and did not have adequate audit trails. These deficiencies existed, primarily, because DFAS Norfolk had not required the Shipyards to forward journal voucher support and had not maintained support to provide a clear audit trail for these transactions. Their review found the following:

- Only partial support was available for 27 journal vouchers valued at $2.2 billion. Computer-generated reports or a spreadsheet prepared by the Shipyards was provided as support for these journal vouchers, but the support was not complete in all aspects. DFAS Norfolk had not obtained sufficient support that provided a clear audit trail.

- Support was missing for 15 journal vouchers valued at $575.2 million. The transactions were posted to the general ledger based solely on the journal vouchers, and DFAS Norfolk did not have backup for all journal voucher transactions.

- Two journal voucher transactions, valued at $309.2 million, were based on an unsupported computation. DFAS Norfolk matched Shipyard activity cash balances with DFAS Cleveland's Activity Control Ledger to force amounts to agree. A true reconciliation between activity cash and U.S. Treasury cash was not performed.

Journal Voucher Approval. The journal vouchers were not properly reviewed and approved. Not all journal vouchers were properly signed. Signatures in the "prepared by" and "approved by" columns of some journal vouchers were missing. In addition, a few journal vouchers were prepared and approved by the same person.

Local Operating procedures. DFAS Norfolk had not established consistent and complete operating procedures for the three Naval Shipyard Accounting Branches in accordance with public law and implementing regulations. Specifically, outdated guidance was still in use, two of the three accounting branches did not have desktop procedures, and finance and accounting practices and procedures were inconsistent among the branches. DFAS Norfolk management stated they had not created or updated operating procedures because finance and accounting business practices had been changing over the past few years. Also, DFAS Norfolk personnel assigned higher priority to performing required finance and accounting functions rather than to documenting the procedures. These deficiencies increased the risk of errors and material misstatements in the Naval Shipyards' financial statements.

Air Force Audit Agency

Air Force General Fund. The Air Force Audit Agency auditors sampled journal vouchers processed at nine field accounting sites. These nine field accounting sites provide accounting support for the Air Force and report the information to DFAS Denver who prepares the Air Force General Fund financial statements. The Air Force Audit Agency auditors reviewed 420 accounting entries valued at $693.3 million that were processed to adjust accounting data by 9 sites during FY 2000. The following Table shows that $322.2 million (46.5 percent) of the $693.3 million in accounting entries were not adequately supported at six of the nine field accounting sites.

Summary of FY 2000 Journal Vouchers Reviewed

Field Accounting Site	Total Journal Vouchers ($ Millions)	Journal Vouchers Reviewed ($ Millions)	Unsupported Journal Vouchers ($ Millions)	Unsupported Percent
DFAS Dayton	802.8	127.4	28.5	22.4
DFAS Europe (Ramstein)	269.8	15.0	15.0	100.0
DFAS Limestone	625.0	209.9	33.5	16.0
DFAS Omaha	273.5	9.5	4.0	42.1
DFAS Pacific (Ford Island)	81.6	0.3	0.0	0
DFAS San Antonio	180.7	20.5	0.0	0
DFAS San Bernardino	1,243.1	310.5	241.1	77.6
DFAS Japan (Yokota)	69.7	0.2	0.1	50.0
Osan Regional Accounting and Finance Office	32.5	0.0*	0.0	0
Totals	**3,578.7**	**693.3**	**322.2**	**46.5**

* the value of the journal vouchers reviewed was $8,400

Journal Voucher Support. The journal vouchers at the six field accounting sites had problems with inadequate documentation and had problems with printed names, annotating references, and inadequate explanations. The journal vouchers and attached documentation did not explain why the transactions were processed or support the transaction amount. Some journal vouchers were prepared at the base level and then certified at the DFAS field accounting sites. Field site approving officials obtained and reviewed the available supporting documentation, but the supporting documentation was not kept with the journal vouchers when they went to the field accounting sites to be

certified. In addition, field accounting sites did not properly approve the journal vouchers used for the accounting entries. Also, field accounting site personnel did not ensure that support was adequate and attached before certifying the journal vouchers. The six field accounting sites did not comply with DoD Regulation 7000.14-R and DFAS journal voucher guidance, specifically, the field accounting sites were not aware of the guidance. DFAS field accounting site personnel did not fully understand and implement existing guidance pertaining to the preparation of journal vouchers. Air Force Audit Agency auditors reported a lack of training on journal voucher preparation for some field accounting site personnel. Air Force Audit Agency auditors also concluded that there was a lack of training needed to ensure that DFAS field accounting site personnel accurately prepared and recorded journal vouchers.

Financial Management Systems. There were two computer systems used to produce the journal vouchers reviewed by the Air Force Audit Agency auditors: the General Accounting and Finance System-BQ and the Central Procurement Accounting System. The General Accounting and Finance System-BQ accounts for all financial transactions concerned with appropriated funds, revenues, assets, liabilities, cost, and property, including funding authority, commitments, obligations, and balances of available funds. The Air Force attempts to use the General Accounting and Finance System-BQ to fulfill functions of a general ledger system. However, the General Accounting and Finance System-BQ was not designed and implemented in a manner permitting it to satisfactorily perform these functions. The Central Procurement Accounting System records all stages of fund execution at base level accounting offices and employs funds controls, performs automated year-end closings, and retains detailed contract history data. The Central Procurement Accounting System is the interface for reporting disbursements, status of funding, and the redistribution of costs/expenses on contractual actions. The Central Procurement Accounting System interfaces the General Accounting and Finance System-BQ. As a result, the General Accounting and Finance System-BQ and the related financial systems did not provide all the data on accounts needed to prepare financial statements or other financial reports.

Air Force Working Capital Fund. DFAS San Bernardino performs accounting for the Air Force Working Capital Fund. The Air Force Audit Agency auditors reviewed information, guidance, and documentation for the General Accounting and Finance System-BQ and the Central Procurement Accounting System used by San Bernardino to process journal vouchers. DFAS San Bernardino made $2.3 billion in accounting entries to the Air Force Working Capital Fund financial data in March and September 2000 to financial data processed by these two accounting systems.

The Air Force Audit Agency auditors reviewed 179 accounting entries valued at $14.4 million and found that 31 accounting entries valued at $3.2 million (22.2 percent) that did not have sufficient documentation to support the journal voucher accounting entries. Of the 31 unsupported accounting entries, 19 had no support attached, 6 had no explanation on the journal voucher, and for 6 of

the accounting entries, the Air Force Audit Agency auditors were unable to determine the reason they were made. DFAS San Bernardino personnel were aware of the requirements for supporting journal vouchers and had local operating procedures. However, they did not adequately support all accounting entries because of the heavy workload caused by restructuring of DFAS field accounting sites.

Inspector General

Other Defense Organizations General Fund. Two field accounting sites were reviewed that perform accounting services for the Other Defense Organizations. They are the Defense Agency Financial Services Office and the Washington Headquarters Services.

Defense Agency Financial Services Office. The Defense Agency Financial Services Office at DFAS Indianapolis provides accounting support for 18 Other Defense Organizations. Defense Agency Financial Services accounting office personnel are required to prepare trial balances on a quarterly basis, to identify deficiencies when they occur, and to correct those deficiencies before preparing the year-end financial statements. However, the March 31, 2000, trial balances prepared from the accounting records that were maintained by the Defense Agency Financial Services Office included $233.8 million of net abnormal balances. None of the abnormal balances were explained in the footnotes for 29 general ledger accounts of 14 Other Defense Organizations. The abnormal balances occurred because:

- the Defense Agency Financial Services Office recorded accruals as non-Government transactions and recorded the corresponding disbursements as Government transactions;

- the accounting system, as configured, did not properly identify accrual accounting entries affecting prior reporting periods and, therefore, did not post those transactions to the correct general ledger accounts; and

- the Defense Agency Financial Services Office recorded accruals twice in one fiscal year and removed the duplicates in one of the following fiscal years.

DoD Inspector General auditors reviewed $52.1 million[1] of downward accrual accounting entries that contributed to the net abnormal balance of $33.1 million in general ledger account 5700. Although the transactions affected multiple reporting periods, the Washington Headquarters Services Allotment Accounting

[1]An abnormal balance reflects the net amount by which the total abnormal transactions exceed the total normal transactions. Therefore, the total value of abnormal transactions is ordinarily larger than the amount of the abnormal balance.

System posted the accounting entries to general ledger account 5700, which reports transactions affecting the current period. The Washington Allotment Accounting System calculated the balance for general ledger account 5700 using accruals and other transaction data. It should, however, have included only accruals recorded and adjusted in the current year.[2] Accounting entries affecting a prior period should have been posted to Prior Period Adjustments, general ledger account 7400. Of the $233.8 million in net abnormal balances that the Defense Agency Financial Services Office reported, $28.1 million of the abnormal balances were reported in Other Services Expense (general ledger account 6120). Similar to general ledger account 5700, the Washington Allotment Accounting System used a combination of accruals and other transaction data to calculate the balance for general ledger account 6120 and did not correctly differentiate between transactions affecting multiple reporting periods. The Washington Allotment Accounting System posted all accounting entries to the current year general ledger account 6120, instead of correctly posting accounting entries affecting prior periods to general ledger account 7400.

Additionally, the current local operating procedures were not adequate to ensure that trial balances were thoroughly reviewed and corrected before being included in the financial statements. Further, the accounting system and associated instruction manuals did not provide adequate tools and explanations for accounting personnel to conduct necessary research on details supporting accounting balances.

Washington Headquarters Services. Washington Headquarters Services provides accounting support to specified DoD organizations, and system support for the Washington Allotment Accounting System, an accounting system used for a majority of the individual organizations and funds. Washington Headquarters Services maintains the official accounting records for funds that it receives and also provides accounting support to various funds allocated to the Office of the Secretary of Defense, the United States Court of Appeals for the Armed Forces, the Pentagon Reservation Maintenance Revolving Fund, and the Pentagon Building Maintenance Fund.

Washington Headquarters Services personnel are required to prepare trial balances on a quarterly basis to identify deficiencies as they occur and to correct those deficiencies before preparing the year-end financial statements. However, the March 31, 2000, trial balances prepared from accounting records that Washington Headquarters Services maintained included $74.9 million of net abnormal balances, none of which were explained in footnotes. Inspector General, DoD, auditors examined 95 percent of the abnormal balances on the trial balances and found that:

[2]The Washington Allotment Accounting System records four types of transactions: commitments, obligations, accruals, and disbursements. The four transactions, along with various classification codes, are used to calculate balances that are later posted to general ledger accounts.

- Washington Headquarters Services did not transfer prior fiscal year ending account balances to the beginning balances in subsequent fiscal years, and caused $51.8 million of net abnormal balances in FY 2000;

- Washington Headquarters Services did not ensure that accruals and corresponding disbursements were both recorded as either Government or non-Government transactions, and caused $13.7 million of net abnormal balances; and

- the Washington Allotment Accounting System, as configured, did not properly identify accrual accounting entries affecting prior reporting periods. Consequently, the accounting entries were recorded to general ledger accounts that only report transactions for the current period and caused $5.6 million of net abnormal balances. The correcting entries were not consistent with Generally Accepted Accounting Principles. During the audit, Washington Headquarters Services took effective action to reduce deficiencies identified during the audit, thereby, reducing reported year-end total net abnormal balances from $159.2 million as of September 30, 1999, to $4.6 million as of September 30, 2000.

The abnormal balances also occurred because Washington Headquarters Services did not have adequate written procedures to review trial balances and to disclose abnormal conditions. Also, the Washington Allotment Accounting System did not provide the requisite query interfaces for accountants to effectively research and correct deficiencies. The Washington Allotment Accounting System program manuals did not provide detailed instructions on how to research account balances, obtain supporting details at the transaction level, and correct identified problems.

Other Defense Organizations Working Capital Fund. DFAS Omaha performs the accounting for the U.S. Transportation Command. The Transportation Component Commands' field-level activities process transactions and transmit the financial data to Omaha. After the journal entries and other accounting entries had been made, Omaha created a single trial balance for each Transportation Component Command, and provided the trial balances to DFAS Denver.

Journal Voucher Support. Inspector General, DoD, auditors determined that DFAS Omaha made $12.6 billion in journal voucher accounting entries to U.S. Transportation Command accounting records in March 2000, of which $11.6 billion (92 percent) were not adequately supported. Further, $0.2 billion (2 percent) of the unsupported entries were not properly approved. These conditions occurred because:

- existing DoD guidance on the use and preparation of journal vouchers was not being followed,

- supporting documentation was nonexistent, incomplete, or did not support the amount of the accounting entry, and

- DFAS Omaha personnel did not consistently obtain approval for the accounting entries.

Consequently, these material control weaknesses will affect the accuracy and reliability of the accounting records and the information included in the FY 2000 DoD Agency-Wide Financial Statements. Although the Inspector General, DoD, auditors are unable to project over the $173.6 billion in U.S. Transportation Command accounting entries processed by DFAS Omaha during FY 2000, similar levels of unsupported transactions may have occurred throughout the entire year.

Financial Management Systems. U.S. Transportation Command and its Transportation Component Commands use different general ledger accounting structures. The U.S. Transportation Command, Headquarters, and its Air Mobility Command use the Air Force Industrial Fund general ledger structure. The Military Traffic Management Command uses the Army Industrial Fund general ledger structure. The Military Sealift Command used the Department of the Navy Industrial Business Fund general ledger structure. However, in July 2000, the Military Sealift Command implemented a U.S. Standard General Ledger accounting structure.

Appendix D. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)
  Deputy Chief Financial Officer
  Deputy Comptroller (Program/Budget)

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Naval Inspector General
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 Organization

Director, Defense Finance and Accounting Service

Non-Defense Federal Organization and Individual

Office of Management and Budget

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

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 Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Efficiency, Financial Management, and Intergovernmental Relations, Committee on Government Reform
House Subcommittee on National Security, Veterans Affairs, and International Relations, Committee on Government Reform
House Subcommittee on Technology and Procurement Policy, Committee on Government Reform

Under Secretary of Defense (Comptroller) Comments

OFFICE OF THE UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

COMPTROLLER

JUL 27 2001

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

SUBJECT: Draft Audit Report on Financial Information Compiled by DoD Field Accounting Sites (Project No. D2001FI-0018.005)

This memorandum is in response to your request for comments on the subject draft audit report. The report includes a three part recommendation directed to the Under Secretary of Defense (Comptroller). Detailed comments on the recommendations are provided in the attachment.

The point of contact for this matter is Mr. William J. deBardelaben. He may be reached by e-mail: debardew@osd.pentagon.mil or by telephone at (703) 697-0585.

Nelson Toye
Deputy Chief Financial Officer

Attachment

OFFICE OF THE UNDER SECRETARY OF DEFENSE (COMPTROLLER)

Draft Audit Report on Financial Information Compiled by DoD Field Accounting Sites (Project No. D2001FI-0018.005)

RECOMMENDATION

* * * * *

Recommendation 1.a.: The Office of the Inspector General, Department of Defense (OIG, DoD) recommended that the Under Secretary of Defense (Comptroller) (USD(C)) revise the "Department of Defense Financial Management Regulation" to require that approving officials be provided with all required supporting documentation at the time each journal voucher is submitted for approval.

Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) Response: Appropriate guidance will be included in a future update of Volume 6A, Chapter 2, "Departmental, Center/Service, and Intermediate/Installation Level Financial Reports Roles and Responsibilities," of the Department of Defense Financial Management Regulation regarding documentation that approving officials shall be provided at the time journal vouchers are submitted for approval. When practical, all documentation supporting the journal voucher should accompany the journal voucher when submitted for approval. However, some circumstances make it impractical for all documentation to accompany a journal voucher when submitted for approval. For example, detailed systems generated reports may be too cumbersome to provide as supporting documentation for a journal voucher. However, a summary level systems generated report of the detailed information should be adequate documentation to support the journal voucher at the time of submission for approval, with the detailed report available for auditors at their request.

Recommendation 1.b.: The OIG, DoD recommended that the USD(C) revise the "Department of Defense Financial Management Regulation" to require that field accounting sites research all abnormal balances on a continuous monthly basis and make corrections if the actual account balances can be properly determined. If abnormal balances cannot be resolved, require that the abnormal balances be reported by field accounting sites as a footnote to the trial balances provided to the central accounting sites.

(OUSD(C)) Response: Currently, accounting sites research abnormal balances monthly and correct them, where feasible. In some cases, the funds holder, rather than the accounting site, may be responsible for applicable data and, therefore, should be responsible for required research and corrective action. Unresolved abnormal balances currently are footnoted in trial balances and forwarded to the Defense Finance and Accounting Service centers.

Attachment

Recommendation 1.c.: The OIG, DoD recommended that the USD(C) revise the "Department of Defense Financial Management Regulation" to require that field accounting sites disclose the amounts of unresolved abnormal balances for all financial statement lines impacted in the Notes to the Principal Statements.

(OUSD(C)) Response: A field accounting site often is not the appropriate level for the resolution of abnormal balances, especially with regard to the preparation of department-level and Agency-wide financial statements. Numerous circumstances can affect the resolution of abnormal balances that are beyond the control of a field accounting site. Currently, for those reporting entities that do not receive a qualified or unqualified opinion, note 1 of the Department's financial statements that: "The [reporting entity] is unable to fully implement all elements of generally acceptable accounting principles and the OMB Bulletin No. 97-01 due to limitations of its financial management processes and systems, including nonfinancial feeder systems and processes." The Department believes that this is a sufficient disclosure.

Attachment

Defense Finance and Accounting Service Comments

DEFENSE FINANCE AND ACCOUNTING SERVICE

1931 JEFFERSON DAVIS HIGHWAY
ARLINGTON, VA 22240-5291
WWW.DFAS.MIL

DFAS-DAS

JUL 24 2001

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

SUBJECT: Audit Report on Financial Information Compiled by DoD Field Accounting Sites (Project No. D2001FI-0018.005)

Our response to the subject audit is attached. The point of contact is Mr. David Arvin, (703) 607-2857 or DSN 327-2857.

Robert P. McNamara
Director for Accounting

Attachment:
As stated

cc:
DFAS-DDI
DFAS-AAIP/DE
DFAS-AJIS/CL
DFAS-AITP/CA
DFAS-AHCAA/IS
DFAS-AX/KC

DFAS Comments on DoDIG Audit Report on Financial Information Compiled by DoD Field Accounting Sites (Project No. D2001FI-0018.005)

General Comments.

This audit report is a compilation of several individual audit efforts. DFAS has provided detailed comments to each individual report. The DFAS response to this audit attempts to address the specific recommendations of this report but is not intended to address each issue raised in this report as thoroughly as our previous response.

Specific Comments.

Page 10, Journal Voucher Review and Approval. DFAS reviewed the journal vouchers (JVs) identified as having no documentation and determined that supporting documentation was available for the $11.6 billion of JVs. However, documentation was not always attached to the JV when it was presented to the auditor.

Response to Recommendation.

Recommendation 2. We recommend that the Director, Defense Finance and Accounting Service develop and execute a time-phased action plan to correct the deficiencies identified in the report and monitor the progress. As a minimum, the plan should:

a. Require and ensure the field accounting sites develop local operating procedures that reflect current DoD guidance and that reflect the local operational environment. As a minimum, these procedures should include the items discussed in the section on "Time-Phased Action Plan."

b. Require specific training for all staff involved in the preparation of accounting entries and trial balances.

c. Establish performance standards for all field accounting sites to set appropriate goals by which to measure the progress made in implementing DoD Regulation 7000.14R, "DoD Financial Management Regulation," and Defense Finance and Accounting Service Arlington journal voucher guidance.

d. Establish detailed metrics to periodically measure the progress made by field and other site directors in achieving these performance standards.

e. Require the Director, Defense Finance and Accounting Service Arlington to monitor and follow up on the progress being made by the field accounting sites and to periodically report the results to the Office of the Under secretary of Defense (Comptroller).

f. Coordinate the time-phased action plan with field accounting sites not under Defense Finance and Accounting Service control.

Management Comments. Concur in principle. While we are taking numerous actions to correct deficiencies identified in this report, we do not believe a time-phased action plan specific to this report is appropriate. We have developed draft implementation strategies to address some of the issues raised in this report. The Audit Trails in Processes and Systems, Documentation of Journal Vouchers, and Abnormal Balances in Receivables and Payables implementation strategies will contribute to the correction of deficiencies noted in this report. Each strategy contains milestones that incorporate the intent of the recommendation.

In addition, DFAS does not believe that performance standards and detailed metrics are necessary to ensure compliance with JV guidance. The DFAS Operational Review Program is the Agency's tool for performing independent verification of compliance with applicable policies and procedures at DFAS sites. These periodic reviews will disclose whether the JV guidance is being followed. Management is briefed on the results of these operational reviews, and reports are issued at the completion of each review to document each site's strengths and weaknesses. DFAS does not believe a labor-intensive effort to attempt to develop and implement performance standards and measurement metrics for implementation of JV guidance would be cost effective. In addition, DFAS disagrees that performance standards and metrics need to be developed for independent verification of each site's performance reports. The DFAS Operational Review Program is the most cost effective manner of ensuring that DFAS sites comply with established policies and procedures, including the JV guidance in question.

DFAS will take actions specifically recommended in the body of the audit report and will encourage field accounting sites to update or implement local operating procedures to conform to established DFAS and DoD guidance related to adequate support of accounting entries. DFAS will continue to ensure personnel are trained appropriately on requirements to properly support and approve accounting entries. This information is provided as part of the audited financial statements (AFS) training provided to each DFAS centralized accounting site. DFAS Denver provided comprehensive journal voucher training to each of its field sites. This "best practice" was identified at a recent AFS Lessons Learned Conference and communicated to the accounting networks as a practice that would be beneficial for all field accounting sites.

Specific actions related to developing local operating procedures follow.

a. Standard Operating Procedure (SOP) 7310-21 was issued in October 2000 for implementation by Cleveland field accounting sites and DFAS Cleveland (DFAS-CL) Departmental Reporting. We believe this SOP fulfills the requirements of the audit. The attachment reflects enhanced procedures for the DFAS-CL Departmental Reporting General Fund Division effective June 11, 2001. The DFAS-CL Departmental Reporting Navy Working Capital Division has been fully compliant with the SOP. Compliance with the SOP at Cleveland field accounting sites will be reviewed.

b. The Defense Agency Financial Services (DAFS) Customer Interface Support Team has a query that can identify mismatched obligation indicator codes and manually correct them in the system. The DAFS Customer Interface Support Team conducted training within the Accounting Directorate and released a memorandum to the employees and the Defense Agencies outlining the procedures and the importance of using the correct obligation indicator codes.

These procedures are part of the desktop SOPs. The Director, DFAS Indianapolis Sustaining Forces reemphasized the policy on abnormal undelivered orders by including the following paragraph in the fiscal year 2001 year-end instructions in the "Special Emphasis" section.

> Undelivered orders (UDO's) should not have a negative balance. Accounting activities will research and correct negative UDO's prior to submission of monthly reports. Any unresolved abnormal balances will be footnoted to describe the causes, the corrective action being taken, the expected date of correction, and reported to DFAS-Indianapolis.

Specific actions related to training initiatives follow.

a. DFAS-CL Departmental Reporting General Fund Division staff who perform journal voucher preparation, certification, and review functions have been trained on all requirements effective June 11 (attachment). In addition, Departmental Reporting staff will randomly sample the Cleveland field accounting sites to ensure compliance with SOP 7310-21.

b. Several DAFS accountants completed the general ledger course and are scheduled to participate in additional financial analysis and reporting classes.

c. DFAS Denver and the audit community developed a comprehensive training package that has been provided to the DFAS field accounting sites that report to DFAS Denver.

Estimated Completion Date. September 30, 2001.

Audit Team Members

The Financial and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD, produced this report. Personnel of the Office of the Inspector General, who contributed to the report are listed below.

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