March 27, 2002

Financial Management

Ending Balance Adjustments to General Ledger Data for the Army General Fund

(D-2002-073)

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Acronyms

DFAS IN-SF	Defense Finance and Accounting Service Indianapolis (Sustaining Forces)
GLAC	General Ledger Account Code
GAO	General Accounting Office
HQARS	Headquarters Accounting and Reporting System

INSPECTOR GENERAL
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March 27, 2002

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE

SUBJECT: Audit Report on Ending Balance Adjustments to General Ledger Data for the Army General Fund (Report No. D-2002-073)

We are providing this report for your review and comment. This audit was performed in response to the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994. We considered comments from the Director, Defense Finance and Accounting Service when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Director, Defense Finance and Accounting Service comments were partially responsive. We request additional comments on Recommendations 1, 2, and 3 by May 13, 2002. Based on the Defense Finance and Accounting Service comments, we deleted draft report Recommendation 4.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Mr. Marvin L. Peek at (703) 604-9587 (DSN 664-9587) (mpeek@dodig.osd.mil) or Mr. Jack L. Armstrong at (317) 510-3846 (DSN 699-3846) (jarmstrong@dodig.osd.mil). See Appendix C for the report distribution. The audit team members are listed inside the back cover.

David K. Steensma

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Acting Assistant Inspector General
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Office of the Inspector General, DoD

Report No. D-2002-073 **March 27, 2002**
(Project No. D2001FI-0178.001)

Ending Balance Adjustments to General Ledger Data for the Army General Fund

Executive Summary

Introduction. The "Chief Financial Officers Act of 1990," Public Law 101-576, November 15, 1990, as amended by the "Federal Financial Management Act of 1994," Public Law 103-356, October 13, 1994, requires the annual preparation and audit of financial statements. The Army did not publish stand-alone financial statements for FY 2001 due to the loss of financial management personnel sustained during the September 11 terrorist attack. Therefore, we did not audit Army financial information for FY 2001 financial statements. However, Army financial statement information was included in the DoD FY 2001 Agency-Wide Financial Statements.

Defense Finance and Accounting Service Indianapolis (Sustaining Forces), hereafter referred to as DFAS IN-SF, provides finance and accounting support to the Army. Support includes maintaining departmental accounting records and compiling financial statements from general ledger trial balances and financial data on the status of appropriations submitted by DoD field accounting entities and other sources. The compilation process is complicated because the financial data submitted to DFAS IN-SF are not generated by integrated, transaction-driven, general ledger accounting systems. For 10 years, DFAS IN-SF has used a complex interim process to combine financial information from diverse accounting and budgetary subsystems to compile the Army General Fund financial statements. DFAS IN-SF made year-end adjustments to force general ledger trial balances to match status-of-appropriations data.

Objectives. Our objective was to determine the cause for the ending balance adjustments made to the Army general ledger data by DFAS IN-SF. We also reviewed the management control program as it relates to the overall objective.

Results. Since 1991, DFAS IN-SF has made large, unsupported adjustments to correct discrepancies between status of appropriations data and general ledger data as part of its compilation of Army General Fund financial statements. These adjustments, known as ending balance adjustments, have ranged from $127.8 billion to $511.8 billion annually for FYs 1996 through 2000. The use of large unsupported adjustments in preparing Army financial data adversely affected the reliability of the DoD FY 2001 Agency-Wide Financial Statements and will affect both Army and DoD Agency-Wide financial statements in the future. See the Finding section for details on the audit results. See Appendix A for details on the management controls program.

Summary of Recommendations. We recommend that the Director, DFAS IN-SF record Expended Appropriations prior to executing the ending balance adjustment. We also recommend that the Director undertake a concerted, sustained effort to identify and correct all deficiencies in the implementation of general ledger accounting and eliminate ending balance adjustments.

Management Comments. The Director, DFAS IN-SF, concurred and established a process to record expended appropriation transactions at the departmental level prior to executing ending balance adjustments. DFAS will be exploring alternatives to eliminate the need for the current ending balance adjustment process. DFAS suggested using a short-term solution that would use budgetary data and data calls. In the long-term DFAS plans to create a centralized database that would allow the auditors to trace detailed transactions back to the field accounting offices' database. The Director concurred with establishing controls over all transactions affecting equity accounts at the departmental level using data derived from the proposed short-term and long-term solutions. DFAS also concurred with identifying and correcting all remaining causes of discrepancies between general ledger trial balances and status of funds data; and DFAS will work towards eliminating all discrepancies between general ledger trial balances and budgetary data. See the Finding section for a discussion of management comments and the Management Comments section for the complete text.

Audit Response. DFAS comments were partially responsive. The DFAS short-term plan would use budgetary data rather than general ledger data, which is not compliant with the Federal Financial Management Act of 1996 or Federal accounting standards. Therefore, we do not agree that the short-term plans are useful. The proposed long-term solution was not clear. The long-term solution will be acceptable if it reconciles budgetary and general ledger data, which has been reconciled to a single source. We request that DFAS provide additional comments on the discontinuance of the use of the ending balance adjustments and the requirement to use general ledger data. In addition, we request clarification on whether budget data or general ledger data will be used for the centralized database. We request that comments on the final report be provided by May 13, 2002.

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Background

Chief Financial Officers Act. The "Chief Financial Officers Act of 1990," Public Law 101-576, November 15, 1990, as amended by the "Federal Financial Management Act of 1994," Public Law 103-356, October 13, 1994, requires the annual preparation and audit of financial statements. The Army did not prepare FY 2001 General Fund Financial Statements due to the loss of financial management personnel sustained during the September 11 terrorist attack. Because the Army did not prepare FY 2001 financial statements, an audit was not performed. However, the Army financial information was included in the DoD FY 2001 Agency-Wide Financial Statements.

Federal Financial Management Improvement Act of 1996. The Federal Financial Management Improvement Act of 1996, Public Law 104-208, September 30, 1996, requires each Federal agency to implement and maintain financial management systems that comply with Federal financial management system requirements (Federal system requirements), applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. Federal system requirements call for audit trails that identify document input, changes, approval, and deletions by originator. In addition, Federal system requirements specify that all transactions are handled consistently to ensure the validity of audit trails and transactions, regardless of their point of origin.

Role of the Defense Finance and Accounting Service Indianapolis (Sustaining Forces). DFAS Indianapolis (Sustaining Forces), hereafter referred to as DFAS IN-SF, provides finance and accounting support to the Army and the Defense agencies. Support includes maintaining departmental accounting records and compiling financial statements from general ledger trial balances and financial data on the status of appropriations submitted by DoD field accounting entities and other sources. The Audited Financial Statements Division of DFAS IN-SF Corporate Operations Directorate is responsible for compiling the Army General Fund financial statements.

Compilation Process. The compilation process is complicated because the financial data submitted to DFAS IN-SF are not generated by integrated, transaction-driven, general ledger accounting systems. For 10 years, DFAS IN-SF used a complex interim process to combine financial information from five diverse accounting and budgetary subsystems to compile the Army General Fund financial statements. At the end of the fiscal year, field accounting entities supported by DFAS IN-SF submitted a general ledger trial balance directly to the departmental general ledger module of the Headquarters Accounting and Reporting System (HQARS). HQARS is a departmental system for receiving, validating, and consolidating budget execution, expenditure, and general ledger balances from field accounting offices. The general ledger data were consolidated into several microcomputer databases. Then general ledger adjustments were accumulated in an additional database. The largest adjustments were made to change the year-end general ledger trial balances to match year-end balances reported for status-of-appropriations data. After the general ledger adjustments were made, DFAS IN-SF used a variety of microcomputer programs and applications to convert the databases into the Army General Fund financial statements.

Accounting Systems. DFAS IN-SF uses its HQARS to prepare Army General Fund financial statements; however, HQARS does not meet Federal system requirements. The FY 2000 DoD Financial Management Improvement Plan identified HQARS as a legacy system and stated that HQARS departmental reporting functions would be consolidated into the Defense Departmental Reporting System by FY 2005. The inability to meet Federal system requirements will continue to exist until HQARS is replaced. HQARS receives general fund accounting support from five accounting subsystems; the most important are the Standard Operation and Maintenance, Army Research and Development System and the Standard Finance System. None of the subsystems meet Federal system requirements, and HQARS cannot comply with Federal system requirements until all the subsystems are also compliant. Until HQARS and its subsystems are compliant with Federal system requirements, the Army General Fund financial statements will continue to be unreliable.

DoD Guidance. DoD Regulation 7000.14-R, "DoD Financial Management Regulation," and DFAS guidance implement the policies and procedures for recording, compiling, and reporting financial information addressed in the Federal system requirements. DoD Regulation 7000.14-R also implements the U.S. Government Standard General Ledger and provides posting rules for the General Ledger Account Codes (GLACs). Both DoD and DFAS guidance require that accounting adjustments to the official accounting records be adequately prepared, supported, approved, and that causes for discrepancies be researched.

Objectives

Our objective was to determine the cause for the ending balance adjustments made to the Army general ledger data by DFAS IN-SF. We also reviewed the management control program as it relates to the overall objective. Appendix A discusses the scope, methodology, and our review of the management control program, and Appendix B covers the prior audit coverage.

Ending Balance Adjustments

Since 1991, the DFAS IN-SF has made large, unsupported adjustments to correct discrepancies between status of appropriations data and general ledger data as part of its compilation of Army General Fund financial statements. These adjustments, known as ending balance adjustments, have ranged from $127.8 billion to $511.8 billion annually for FYs 1996 through 2000. DFAS IN-SF made ending balance adjustments primarily because general ledger accounting was not correctly implemented in the Army's field accounting systems. Specifically, the field accounting systems did not properly account for equity and revenue transactions. DFAS IN-SF has taken some corrective action, but there has been no concerted and sustained effort to identify and correct all the deficiencies in the implementation of general ledger accounting. The use of large unsupported adjustments in preparing Army financial data adversely affected the reliability of the DoD FY 2001 Agency-Wide Financial Statements and will affect the reliability of both Army and DoD Agency-Wide financial statements in the future.

History of Ending Balance Adjustments

The DFAS IN-SF has made large, unsupported adjustments to force the fiscal year end general ledger trial balances to agree with the fiscal year end status of appropriations balances. The adjustments to force the data to agree have been part of the compilation of Army General Fund financial statements since the inception of Chief Financial Officers Act reporting in FY 1991. However DFAS IN-SF did not have evidence to support the accounting adjustments as required by the Federal system requirements. These unsupported adjustments are called ending balance adjustments. Although DFAS IN-SF has always used the ending balance adjustment when compiling the Army General Fund financial statements, the amount of the adjustments has varied. The General Accounting Office (GAO) reported an ending balance adjustment of $7 billion for FY 1991. Table 1 shows the values of the ending balance adjustments that DFAS IN-SF made for FYs 1996-2000:

Table 1. Ending Balance Adjustment FYs 1996-2000

Fiscal Year	Adjustment (billions)
1996	$127.8
1997	$350.0
1998	$511.8
1999	$130.5
2000	$237.0

General Accounting Office. GAO Report No. AIMD-93-1, "Financial Audit: Examination of the Army's Financial Statements for FYs 1992 and 1991," June 30, 1993, concluded that much of the information needed to prepare the financial statements was not produced by general ledger-controlled accounting systems. Instead, the DFAS Indianapolis Center* used status of appropriations data. GAO stated that DFAS Indianapolis Center made unsupported adjustments worth $7 billion to force the General Ledger ending balances to agree with status of appropriations ending balances. DFAS Indianapolis Center personnel believed that the status of appropriations data were more reliable because the DoD officials responsible for the funds certify the status of appropriations data. However, as GAO said in its report on the Army Financial Statements for FY 1992 and FY 1991, "there can be no assurance that either data source (general ledger data or budgetary data) is accurate because differences between them have not been investigated." At that time, GAO concluded that the accounting systems necessary to eliminate the need for the ending balance adjustments would be in place by FY 1997. However, such accounting systems are still not in place.

Inspector General, DoD. The Inspector General, DoD, has addressed issues related to the ending balance adjustments in prior audits of the compilation of the Army General Fund financial statements. Recommendations were made to DFAS to identify and eliminate the causes for the ending balance adjustments; however, DFAS has not been successful. See Appendix B for a list of reports on this topic that the Inspector General, DoD, issued.

FY 1996 Financial Statements. Report No. 98-120, "Compilation of the FY 1996 Army Financial Statements at the Defense Finance and Accounting Service Indianapolis Center," April 23, 1998, states that DFAS Indianapolis Center was not making effective use of available reconciliation tools to identify and correct the causes for the ending balance adjustment.

FY 1997 Financial Statements. Report No. 98-212, "Compilation of the FY 1997 Army General Fund Financial Statements at the Defense Finance and Accounting Service Indianapolis Center," September 24, 1998, states that use of status of appropriations data and expenditure data was an unacceptable interim method (that had been in place for more than 6 years) for compiling the Army General Fund financial statements. We reported that the DFAS Indianapolis Center was not in compliance with requirements established in the Federal Financial Management Improvement Act of 1996 because the accounting system used to produce those Army General Fund financial statements does not meet Federal system requirements. We recommended that the Director, DFAS Indianapolis Center, establish an action plan with specific target dates for implementation of an integrated accounting system based on general ledger accounting.

FYs 1998, 1999, and 2000 Financial Statements. In the audit reports on the Army General Fund compilation we continued to state that the use of

*Prior to FY 2000, DFAS IN-SF was known as the DFAS Indianapolis Center. Prior to the creation of DFAS in FY 1990, the DFAS Indianapolis Center was the U.S. Army Finance and Accounting Center.

status of appropriations data and expenditure data was an unacceptable interim method for compiling the FYs 1998 through 2000 Army General Fund financial statements.

Implementation of General Ledger Accounting

We did not review the adjustments for the FY 2001 data because the Army did not publish FY 2001 financial statements. However, DFAS IN-SF made ending balance adjustments of $237 billion for FY 2000. About $218 billion (92 percent) of the adjustments were made to correct discrepancies in Unexpended Appropriations (GLAC 3100) and Cumulative Results of Operations (GLAC 3310). The remaining adjustments for $19 billion (or 8 percent) were to various asset, liability, expense, and revenue GLACs. These discrepancies occurred because DFAS IN-SF did not correctly implement general ledger accounting in the field accounting systems as required by the Federal Financial Management Improvement Act of 1996. The former Army Finance and Accounting Center implemented an off-the-shelf general ledger accounting module for FY 1988; however, the implementation was flawed. The general ledger module did not record some equity and revenue transactions correctly. In addition, adjustments to status of appropriations reports prepared at some field accounting sites were not recorded in the general ledger.

Recording Equity and Revenue Transactions. The general ledgers used in field accounting systems did not correctly record the use of appropriated funds. When an accounting entity incurs an expense or capitalized cost using appropriated funds, the equity account Unexpended Appropriations should be decreased and the revenue account Expended Appropriations should be increased. Field accounting systems do not record the transactions as required by the DoD Regulation 7000.14-R, volume 4, Chapter 18, "Revenues, Other Financing Sources, and Gains," July 1999. However, the transactions are recorded in the status of appropriations data. Since Expended Appropriations is used to compute Results of Operations, Cumulative Results of Operations (GLAC 3310) is also affected.

Expended and Unexpended Appropriations. DFAS IN-SF made accounting entries valued at $218 billion as part of the FY 2000 ending balance adjustment to force Unexpended Appropriations recorded in the general ledger to match the certified status data. This ending balance adjustment is made by debiting Unexpended Appropriations and crediting Cumulative Results of Operations. DFAS IN-SF personnel had to make a departmental adjustment of $67.9 billion to record expended appropriation transactions by crediting Expended Appropriations and debiting Cumulative Results of Operations. DFAS IN-SF should record the expended appropriation transactions in Expended Appropriations and reduce Unexpended Appropriations before executing the ending balance adjustment. This would have reduced the $218 billion ending balance adjustment by $67.9 billion.

Cumulative Results of Operations. The failure to correctly record expended appropriation transactions impacts Cumulative Results of Operations balance. Because the annual results of operation are computed using revenue and expense balances, the failure to record expended appropriation transactions

distorts cumulative results of operations balance. The $67.9 billion in unrecorded Expended Appropriations for FY 2000 made up about 31 percent of the total discrepancy between Unexpended Appropriations and Cumulative Results of Operations. We were unable to determine the exact composition of the remaining $150.1 billion. However, our analysis indicates that figure may reflect the cumulative effects of improperly recording Expended Appropriations transactions.

DFAS IN-SF should quantify and eliminate the accumulated error in Cumulative Results of Operations. If DFAS IN-SF correctly implemented general ledger accounting, it would eliminate the need for this adjustment to Cumulative Results of Operations and Expended Appropriations, and bring accounting processes closer to meeting Federal system requirements. Because there are currently no plans to correct this deficiency in the field accounting systems, DFAS IN-SF should prevent further accumulation of error by retaining control over all transactions affecting equity accounts at the departmental level.

Adjustments to Status of Appropriation Reports. Field accounting entities use a monthly reconciliation process known as Electra to ensure accuracy and consistency of status of appropriation reports. The Army Audit Agency reported in FY 2001 that field accounting sites using the Standard Operation and Maintenance, Army Research and Development System often do not take the steps necessary to ensure that the adjustments made as part of the Electra process were recorded properly. Adjustments were posted to the status data reports but not to the accounting records. As a result, general ledger trial balances did not agree with the status of funds reports. The Army Audit Agency reviewed $763 million in abnormal balance adjustments for April 2000 that caused adjustments to be made at DFAS IN-SF at year-end. If April was a typical month in FY 2000, the total abnormal balance adjustments would be $9.2 billion or 4 percent of the FY 2000 ending balance adjustment.

Correcting Deficiencies in General Ledger Accounting

DFAS IN-SF has taken some corrective action, but there has been no concerted and sustained effort to identify and correct all of the deficiencies in the implementation of general ledger accounting. The following are actions taken by DFAS IN-SF management to reduce the ending balance adjustments.

Recording of Data. In FY 1999, DFAS IN-SF identified certain departmental adjustments related to undistributed disbursements, collections, and accruals that were recorded in the status of appropriations records but not in the departmental general ledger. Also, DFAS IN-SF personnel identified departmental adjustments and accruals that were recorded in status of appropriation records but were not recorded in the departmental general ledger. DFAS IN-SF personnel initiated corrective action and reduced the FY 1999 ending balance adjustment to $130.5 billion as shown in Table 1.

Fiscal Station Reconciliation Program. In FY 1999, DFAS IN-SF modernized the fiscal station reconciliation program by posting the lists of differences between the status of appropriations data and general ledger data on the DFAS server. However, the program is currently inactive, and the formulas used by the fiscal station reconciliation program need to be updated. The

potential benefit of the fiscal station reconciliation program is to eliminate discrepancies between the general ledger trial balance and status of appropriations data. Such discrepancies were the result of local accounting errors.

Analysis of Ending Balance Adjustments. During FY 2001, DFAS IN-SF personnel analyzed the ending balance adjustments for 2 out of 65 basic symbols, identifying the failure to correctly record Expended Appropriations as the most significant cause of the ending balance adjustments for those basic symbols. The analysis also identified transactions included in the ending balance adjustment that were actually asset reclassifications. However, DFAS IN-SF did not develop a plan of action to eliminate the need for the ending balance adjustments.

Impact of Ending Balance Adjustments

DFAS IN-SF personnel prepared five accounting entries, called ending balance adjustments, valued at $237 billion in FY 2000 to force the general ledger data to agree with budgetary data. As a result, the reliability of the Army General Fund financial statements was reduced by large unsupported adjustments and the Army General Fund Equity was materially misstated. For FY 2000, the ending balance adjustments had an effect on all the Army General Fund financial statements except the Statement of Budgetary Resources. Table 2 shows the material effect on the FY 2000 Army General Fund Financial Statements by the ending balance adjustment.

Table 2. FY 2000 Army General Fund Financial Statements Lines Materially Affected by the Ending Balance Adjustment

Financial Statement	Financial Statement Line	Percent Change due to Adjustment
Balance Sheet	1A1: Fund Balance With Treasury	-6.53
	1A3: Intragovernmental Accounts Receivable	+27.15
	1A4: Other Intragovernmental Assets	-18.56
	1B: Cash and Other Money Assets	-16.11
	1C: Public Accounts Receivable	-38.88
	1G: Other Assets	+27.09
	3A1: Intragovernmental Accounts Payable	-139.62
	3A4: Other Intragovernmental Liabilities	-33.86
	3B: Public Accounts Payable	-42.65
	5A: Unexpended Appropriations	-89.38
	5B: Cumulative Results of Operations	-100.29
Statement of Net Position	2B: Non-Exchange Revenue	+17.49
	8: Net Position, Beginning Of Period	-120.63

Because of the material impact of the ending balance adjustments, the FY 2000 Army General Fund Financial Statements were materially influenced by unsupported accounting data. The effects of the FY 2000 ending balance adjustments are typical of the effects of the ending balance adjustments of previous fiscal years. For example, Unexpended Appropriations was changed by -77.16, -89.73, and –77.93 percent in the Army General Fund Financial Statements for FYs 1999, 1998, and 1997 respectively. Unsupported adjustments of this scale render the Army General Fund Financial Statements unreliable.

Command Actions

We informed DFAS IN-SF of the preliminary results of this audit on August 30, 2001. While preparing the Army General Fund data that was included in the DoD FY 2001 Agency-Wide Financial Statements, DFAS IN-SF personnel recorded expended appropriation transactions at the department level prior to executing the FY 2001 ending balance adjustments. As a result, the FY 2001 ending balance adjustment was reduced by $83.7 billion. We commend DFAS for taking this step to improve the compilation process.

Conclusion

Since 1991, DFAS IN-SF has made large, unsupported adjustments to correct discrepancies between status of appropriations data and general ledger data. The Inspector General, DoD has addressed issues relating to these unsupported ending balance adjustments in every audit of the Army General Fund financial statements since 1996. We stated that the use of status of appropriations data and expenditure data was an unacceptable interim method for compiling the FYs 1997 through 2000 Army General Fund Financial Statements. We made recommendations to DFAS IN-SF to identify and eliminate the causes for the ending balance adjustments and develop a plan of action with specific target dates to implement an integrated accounting system based on general ledger accounting. DFAS IN-SF actions have not been effective in correcting the deficiencies in the accounting system.

The ending balance adjustments almost doubled from FY 1999 to FY 2000. By correcting the accumulated error in GLAC 3310 and controlling all equity transactions, including recording appropriations used at the departmental level, we believe that up to 92 percent of the FY 2000 ending balance adjustment of $237 billion could have been eliminated. The need for ending balance adjustments will continue until general ledger accounting is correctly implemented throughout the Army's accounting system. Unless DFAS IN-SF makes a concerted and sustained effort to identify and correct all the deficiencies in the implementation of general ledger accounting, the Army General Fund financial statements will continue to be unreliable. Ending balance adjustments should be eliminated after FY 2001.

Recommendations, Management Comments, and Audit Response

Deleted Recommendation. We deleted draft report Recommendation 4 to reestablish the fiscal station reconciliation program. We agree with management comments that if only general ledger data is used for financial reporting, the fiscal station reconciliation program will no longer be needed.

We recommend that the Director, Defense Finance and Accounting Service Indianapolis (Sustaining Forces):

1. Record expended appropriation transactions at the departmental level prior to executing ending balance adjustments and discontinue the use of ending balance adjustments after FY 2001.

Management Comments. The Director, DFAS IN-SF, concurred with the recommendation. The Director stated that the action of recording expended appropriations at the departmental level was completed prior to executing the FY 2001 ending balance adjustments. The Director proposed an interim solution for FY 2003 that will use both budgetary data and data calls. By September 2004, DFAS plans to develop a long-term solution involving the creation of a centralized database containing all detail accounting transactions reported by supporting accounting offices. The centralized database will be a single source of data that will be used to generate required reports and allow auditors to trace transactions back to information at the field accounting offices.

Audit Response. The Director comments are partially responsive to the recommendation. Recording of Expended Appropriation transactions at the departmental level prior to executing ending balance adjustments is responsive. DFAS IN-SF did reduce the FY 2001 ending balance adjustment by $83.7 billion. However, the suggested interim solution is not acceptable because it continues to use budgetary data and merely hides the problem. In the proposed long-term solution, it was not clear whether budgetary or general ledger data will be reconciled. We request that DFAS discontinue plans for the interim solution and clarify its intention to use general ledger data so that the ending balance adjustment is not needed. DFAS IN-SF has the capability to discontinue making the ending balance adjustment because general ledger data is available as discussed in the report. If the recommendation is not fully implemented in FY 2002, the ending balance adjustment could increase and necessitate that DFAS IN-SF try to reconcile budget and general ledger data. We request that the Director provide a date that the use of the ending balance adjustment will be discontinued.

2. Establish control over all transactions affecting equity accounts at the departmental level.

Management Comments. The Director concurred with the recommendation and stated that the DFAS IN-SF will use the Defense Departmental Reporting System to establish and maintain beginning balances for equity accounts. Current year activity will be derived from the process being developed as

described in the response to Recommendation 1. Therefore, actions will not be complete until the proposed plans for implementing Recommendation 1 are complete.

Audit Response. The Director's comments are partially responsive to the recommendation. We agree with the process to establish and maintain beginning balances for equity accounts in the Defense Departmental Reporting System. However, general ledger data rather than budgetary data must be used to derive current year activity. The Federal Financial Management Improvement Act of 1996 requires the use of the U.S. Government Standard General Ledger at the transaction level. The use of budget data is a form of cash basis accounting, which is not compliant with Federal accounting standards and could result in an incorrect amount for equity. We request that the Director clarify that general ledger data will be used to populate the appropriate accounts in response to Recommendations 1 and 2.

3. Identify and correct all remaining causes of discrepancies between general ledger trial balances and status of funds data in FY 2002.

Management Comments. The Director concurred with the recommendation and stated that DFAS IN-SF will work toward eliminating the discrepancies by creating a centralized database containing all detailed accounting transactions reported by the field network. The centralized database will contain a single source of data. The estimated completion date of this action is September 30, 2003.

Audit Response. Although the Director concurred with the recommendation, the comments are not responsive to the intent of the recommendation. We agree that DFAS IN–SF should use a single source of data; however, we disagree with the source of data that will be used. The Federal Financial Management Improvement Act of 1996 states that the source of data is required to be U.S. Government Standard General Ledger data at the transaction level, not budgetary data. We request that the Director provide additional comments on the final report to clarify that general ledger data will be used for the centralized database.

Appendix A. Audit Process

Scope

We reviewed the process and system that DFAS IN-SF used to make ending balance adjustments to the Army General Fund general ledger data. Our examination included a review of the general ledger adjustments accumulated in the Chief Financial Officer Load and Reconciliation System for FY 2000. We reviewed the audit results for the Army General Fund compilation for FYs 1991, 1992 and 1996-2000. We did not perform a detailed review the adjustments for the FY 2001 data because the Army did not publish FY 2001 financial statements due to loss of resources sustained during the September 11 terrorist attack.[1] We limited our review of FY 2001 information to obtaining the total amount of the ending balance adjustments for FY 2001. The Army General Fund reported $80.7 billion in assets, $54.2 billion in liabilities, and $628.2 million in cumulative results of operations in its FY 2000 financial statements.

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

Methodology

We reviewed the DFAS IN-SF financial reporting processes including the applications used and the policies and procedures needed in the preparation of accounting information to create the Army General Fund financial statements. The review included the following:

- Review of the Chief Financial Officer Load and Reconciliation System, which determines the adjustments necessary to force general ledger accounting data recorded in SOURCE21[2] to match the certified status data in TRC_CY[3]. These adjustments are recorded in JVDATA, a database used to record the general ledger adjustments.

- Assessment of whether the processes used by DFAS IN-SF to make accounting entries and compile general ledger trial balance data were

[1]Financial information for the Army that would have been included in stand-alone financial statements for the Army was included in the DoD FY 2001 Agency-Wide Financial Statements. Specific information for the Army General Fund was also included in the DoD FY 2001 Supporting Consolidating and Combining Statements.

[2]Trial balances submitted by the fiscal stations for accounting month 12, summarized by GLAC by appropriation.

[3]A subset of the year end certified status data extracted from the Departmental Budgeting and Accounting Reporting System database used to compute the adjustments needed to force the general ledger data to agree with certified status data (the ending balance adjustment).

in compliance with applicable laws and regulations including accounting standards and accounting system requirements. We specifically reviewed the adequacy of the Federal Financial Management Improvement Act of 1996, DoD Regulation 7000.14-R and DFAS guidance issued October 1999, and August 2, 2000, relating to the audit objective.

- Review of reports issued by the General Accounting Office and the Inspector General, DoD from FY 1991 through FY 2000 regarding the ending balance adjustments DFAS IN-SF made to force the general ledger ending balances to agree with status of appropriations data ending balances.

- Interviews with personnel at the DFAS IN-SF.

Use of Computer-Processed Data. To achieve the audit objective, we relied primarily on computer-processed data in DFAS databases ZPBI[4], JVDATA, and G0A[5] for both FY 1999 and FY 2000. We tested the data and determined that they were complete but not subject to adequate controls. 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. Field-level systems were not included in our review. Therefore, we can comment only on the reliability of data processed after receipt by DFAS IN-SF.

Audit Type, Period, and Standards. We performed this financial-related audit from July 2001 through November 2001 in accordance with generally accepted government auditing standards. The audit included such 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 upon 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 a 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. We evaluated management controls over DFAS IN-SF processes and procedures for consolidating financial data from field organizations and other sources for preparation of the Army General Fund financial statements.

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[4]General ledger file used for monthly reconciliation at the fiscal station level.

[5]Summary at appropriation/limit/fiscal station number/allotment serial number level of all status data reported to DFAS IN-SF for a given accounting month, plus departmental adjustments. The data is cumulative year-to-date.

Adequacy of Management Controls. A material management control weakness, as defined by DoD Directive 5010.38, existed in the DFAS IN-SF procedures for compiling the Army General Fund financial statements. Management controls at the DFAS IN-SF were not adequate to ensure the reliability of the Army General Fund financial statements. The recommendations, if implemented, will improve controls over ending balance adjustments. A copy of the report will be provided to the senior official responsible for management controls at DFAS IN-SF.

Adequacy of Management's Self-Evaluation. Management's self-evaluation was not adequate. DFAS IN-SF officials identified financial statement reporting as an assessable unit and all major function controls identified were considered to be vital. However, the testing of these vital controls did not include the conclusion of the examination of the vital controls. Also, DFAS IN-SF had two identified material weaknesses in the FY 2000 DFAS Consolidated Annual Statement of Assurance that were not addressed in management's self-evaluation.

Appendix B. Prior Coverage

General Accounting Office

GAO Report No. AIMD-93-1 (OSD Case No. 9276-E), "Financial Audit: Examination of the Army's Financial Statements for Fiscal Years 1992 and 1991," June 30, 1993

GAO Report No. AFMD-92-83 (OSD Case No. 8674), "Financial Audit: Examination of the Army's Financial Statements for Fiscal Year 1991," August 7, 1992

Inspector General, DoD

Inspector General, DoD, Report No. D-2001-158, "Compilation of the FY 2000 Army General Fund Financial Statements at the Defense Finance and Accounting Service Indianapolis (Sustaining Forces),"July 13, 2001

Inspector General, DoD, Report No. D-2000-160, "Compilation of the FY 1999 Army General Fund Financial Statements at the Defense Finance and Accounting Service Indianapolis Center," July 12, 2000

Inspector General, DoD, Report No. 99-153, "Compilation of the FY 1998 Army General Fund Financial Statements at the Defense Finance and Accounting Service Indianapolis Center," May 12, 1999

Inspector General, DoD, Report No. 98-212, "Compilation of the FY 1997 Army General Fund Financial Statements at the Defense Finance and Accounting Service Indianapolis Center," September 24, 1998

Inspector General, DoD, Report No. 98-120, "Compilation of the FY 1996 Army Financial Statements at the Defense Finance and Accounting Service Indianapolis Center," April 23, 1998

Inspector General, DoD, Report No. 96-161, "Compilation of the FY 1995 and FY 1996 DoD Financial Statements at the Defense Finance and Accounting Service Indianapolis Center," June 13, 1996

Appendix C. 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 Organizations

Director, Defense Finance and Accounting Service
  Director, Defense Finance and Accounting Service (Sustaining Forces)

Non-Defense Federal Organization

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

Defense Finance and Accounting Service Comments

DEFENSE FINANCE AND ACCOUNTING SERVICE
INDIANAPOLIS CENTER
INDIANAPOLIS, IN 46249

DFAS-AHCAA/IS

FEB 2 8 2002

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

SUBJECT: DoDIG Draft Audit Report, Project # D-2001FI-0178, "Ending Balance Adjustments to General Ledger Data for the Army General Fund", dated December 21, 2001

Our response to the subject DoDIG draft audit report is attached. My point of contact is Mr. Gerald Davenport at 317-510-7132.

Steve R. Bonta
Director, Accounting Services - Client Executive
DFAS Indianapolis (Sustaining Forces)

Attachment:
As stated

cc:
DFAS-DDI

SUBJECT: DoDIG Draft Audit Report, Project # D-2001FI-0178, "Ending Balance Adjustments to General Ledger Data for the Army General Fund", dated December 21, 2001

Recommendation 1. Record expended appropriation transactions at the departmental level prior to executing ending balance adjustments and discontinue the use of ending balance adjustments after FY 2001.

Management Comments. Concur. DFAS Indianapolis Sustaining Forces (SF) DFAS-SF established a process, using field submitted data to record expended appropriation transactions at a departmental level. This process was completed prior to executing FY 2001 ending balance adjustments, as acknowledged by the Draft Audit Report.

DFAS-SF will be exploring alternatives to eliminate the need for the current ending balance adjustment process. A short-term solution could involve the development of crosswalks using budgetary data to populate general ledger account codes. The proprietary general ledger account codes that could not be obtained from direct relationships to budgetary data would be populated through a combination of existing and newly created data calls. This short-term solution would result in use of a single source of data (data calls and budgetary data) that could be used to populate general ledger account codes, and subsequently the financial statements.

Additionally, DFAS-SF in concert with DFAS Indianapolis Operating Forces (OF) will be developing a long-term solution involving the creation of a centralized database containing all detail accounting transactions reported by the field network. The centralized database will be the single source of data used to generate required reports and allow auditors to trace transactions back to field accounting databases.

Estimated Completion date for an interim solution:
September 30, 2003

Estimated Completion date for the long term solution:
September 30, 2004

Recommendation 2. Establish control over all transactions affecting equity accounts at the departmental level.

Management Comments. Concur. DFAS-SF will use the Defense Departmental Reporting System (DDRS) to establish and maintain beginning balances for equity accounts. This approach will be

Final Report Reference

SUBJECT: DoDIG Draft Audit Report, Project # D-2001FI-0178, "Ending Balance Adjustments to General Ledger Data for the Army General Fund", dated December 21, 2001

tested during preparation of the FY 2002 mid-year financial statements to determine whether the approach will be effective for future reporting requirements. The success of this approach is contingent upon establishing a process that can effectively add current year activity to the already established beginning balances as reflected in DDRS. Current year activity, under the DDRS beginning balance process, will be derived from the process we are looking at developing in Recommendation 1. Consequently, the recommendation 2 completion date is tied to Recommendation 1's completion date.

Estimated Completion date: September 30, 2003

Recommendation 3. Identify and correct all remaining causes of discrepancies between general ledger trial balances and status of funds data in FY 2002.

Management Comments. Concur. DFAS-SF will work towards eliminating all discrepancies between general ledger trial balances and status of funds data by developing a process, referred to in Recommendations 1 and 2, that will create general ledger balances from one stream of data. This process will eliminate discrepancies created as a result of the current process involving two streams of data.

Estimated Completion date: September 30, 2003

Recommendation 4. Reestablish the fiscal station reconciliation program.

Deleted

Management Comments. Nonconcur. As stated in the previous recommendations, we will be developing a process which will alleviate the need to reconcile the field submitted trial balances with the separate stream of budgetary data. The reconciliation program was originally designed to assist the field in maintaining certain relationships between budgetary and proprietary accounts. Many of these relationships were never effectively established or maintained due to omissions of Departmental adjustments and a myriad of legacy systems all using different charts of accounts. Maintaining and reconciling two separate streams of data produced by legacy accounting systems is considered to be inefficient and costly. DFAS-SF will concentrate on a single source of data that will be used to create all required Departmental Reports.

Audit Team Members

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

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