

October 12, 2006



Financial Management

Accounting for Department of the
Navy General Fund Accounts
Receivable
(D-2007-004)

Department of Defense
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Article I, Section 9

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Acronyms

AR	Accounts Receivable
DDRS-AFS	Defense Departmental Reporting System –Audited Financial Statement
DFAS	Defense Finance and Accounting Service
FACTS II	Federal Agencies Centralized Trial Balance System - Budgetary
FIAR	Financial Improvement Audit Readiness
NAVSISA	Naval Supply Information Activity
NGF	Navy General Fund
OIG	Office of Inspector General
STARS	Standard Accounting and Reporting System
STARS-FL	Standard Accounting and Reporting System-Field Level
TROR	Treasury Report on Receivables
USSGL	United States Standard General Ledger



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October 12, 2006

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE
NAVAL INSPECTOR GENERAL

SUBJECT: Report on Accounting for Department of the Navy General Fund Accounts
Receivable (Report No. D2007-004)

We are providing this report for review and comment. 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. Comments by the Defense Finance and Accounting Service were partially responsive. We request additional comments on Recommendation A.1., C.1., C.2.a., C.2.b., and C.2.c. by December 13, 2006.

If possible, please send management comments in electronic format (Adobe Acrobat file only) to Auddfs@dodig.mil. Copies of the management comments must contain the actual signature of the authorizing official. We cannot accept the / Signed/ symbol in place of the actual signature. If you arrange to send classified comments electronically, they must be sent over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. Raymond Kidd at (703) 325-5515 (raymond.kidd@dodig.mil) or Mr. Edward A. Blair at (216) 706-0074 x 226 (edward.blair@dodig.mil). See Appendix B for the report distribution. The audit team members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing:

A handwritten signature in black ink, reading "Paul J. Granetto", is written over a horizontal line.

Paul J. Granetto, CPA
Assistant Inspector General
Defense Financial Auditing
Service

Accounting for Department of the Navy General Fund Accounts Receivable

Executive Summary

Who Should Read This Report and Why? Defense Finance and Accounting Service (DFAS) management and personnel who are responsible for processing receivables, reimbursables, and collections, should read this report, as should Navy Management. It discusses the need to maintain an audit trail and the importance of being able to provide a universe of Accounts Receivable transactions for the Department of the Navy General Fund.

Background. DFAS Cleveland performs accounting functions including preparation of financial statements for the Department of the Navy. The accounts receivable line on the Navy General Fund (NGF) Balance Sheet is composed of varying components including receivables, reimbursables, and collections. The Department of the Navy reported \$311,517,857,000 in assets on the FY 2005 Balance Sheet and the Accounts Receivable balance was valued at \$3,548,961,000 (including the Intragovernmental and Public portions).

DFAS personnel use an Excel “import” spreadsheet application to compile a basic United States Standard General Ledger (USSGL) trial balance that is subsequently imported into the Defense Departmental Reporting System – Audited Financial Statements (DDRS-AFS). The DDRS-AFS application standardizes the DoD departmental reporting process and produces the quarterly departmental financial reports based on USSGL and standard attributes. Our overall audit objective was to determine whether the Department of the Navy and DFAS complied with applicable laws and regulations related to processing receivables, reimbursables, and collections. Specifically, we attempted to test all types of receivable, reimbursable, and collection transactions for compliance with established guidance.

Results. DFAS Cleveland performed departmental level trading partner adjustments valued \$51.8 million that ultimately impacted the Mid-Year FY 2005 Balance Sheet. However, DFAS provided insufficient documentation to support the adjustments or to trace transaction amounts to source data. As a result, auditors were not able to verify \$51.8 million in trading partner adjustments to the accounts receivable balance sheet amount. Inability to document adjustments and transaction amounts significantly impacts the audit readiness of Accounts Receivable. DFAS Cleveland should fully document the processes used to make trading partner adjustments. See finding A for the detailed recommendation.

DFAS Cleveland could not support \$449,133,195 reported on the Treasury Report on Receivables Due from the Public (TROR) and supported the remaining report balance with reproduced documentation rather than the authentic source documentation Navy used during report preparation. DFAS Cleveland reported \$3,010,743,438 due from the

public on the March 31, 2005 TROR. DFAS uses the TROR to prepare Navy financial statements. The receivable amounts reported on the TROR must reconcile with the NGF financial statements. If DFAS Cleveland does not have records that support the amount reported on the TROR, then NGF financial statement amounts would also be unsupported. The lack of controls increases the risk of errors. DFAS Cleveland needs to establish controls to ensure that all support documents are properly maintained and controlled. See finding B for the detailed recommendations.

DFAS Accountants in coordination with the Naval Supply Information Systems Activity (NAVSISA) were not able to provide a timely universe of Accounts Receivable transactions as of March 31, 2005. Our initial request for a universe of receivable transactions from STARS-Field Level (STARS-FL) was made on July 7, 2005. We had not received a universe by January 9, 2006. DFAS did not provide us a universe of transactions because DFAS accountants and the STARS Project Management Office were uncertain of what comprises a universe. The inability to timely extract a universe from STARS-FL impedes the auditability of AR transactions. See finding C for the detailed recommendation.

Management Comments and Audit Response. DFAS concurred with three of the recommendations and concurred in principle with six other recommendations and states it will revise its Standard Operating Procedures for the General Fund and TROR to ensure that source documentation is properly maintained. DFAS also states that audit trails will not be available while it is using legacy accounting systems and that the DoD business transformation effort that is projected to be completed around 2011 will provide solutions for the findings identified in this report. We consider the comment unresponsive and disagree with the DFAS assertion that our recommendations should be addressed to the Navy. Because these findings and recommendations relate to accounting issues, they are addressed to DFAS, the accountant for the Navy. DFAS may coordinate with the Navy in its response. We request that DFAS provide comments on the final report by December 13, 2006. See the Finding section of the report for a discussion of DFAS comments and audit response and the Management Comments section for the complete text of comments.

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Background

The Defense Finance and Accounting Service (DFAS) provides accounting services for the Department of Defense. The Defense Departmental Reporting System-Audited Financial Statements (DDRS-AFS) Division at DFAS Cleveland prepares the Department of the Navy financial statements. DDRS AFS performs its function at the summary level, integrating many processes in recording, maintaining and tracking accounts receivable through the Navy General Fund Division at DFAS Cleveland. The accounts receivable line on the Navy General Fund (NGF) Balance Sheet is composed of varying components including receivables, reimbursables, and collections. Accounts Receivable (AR) include, but are not limited to, money due for sale of goods and services and other events creating indebtedness to the DoD. Uncollected amounts earned from reimbursable sales (reimbursables) are recorded as accounts receivable. Nonentity receivables include Government receipts and collections (collections) arising from the sovereign and regulatory powers unique to the Federal Government.

Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer Memorandum, "Financial Improvement Initiative Business Rules," dated June 23, 2004, requires that during validation transaction records should be available. The Department of Defense Office of Inspector General defined "availability" in "Auditor Access for Financial Statement Audits," dated January 24, 2005, to mean that supporting documentation should be provided to the auditors within 2 working days. The memorandum further establishes that if an entity needs more than 2 days to provide the requested data, then Office of the Inspector General and DoD reporting entity points of contact will coordinate an acceptable turnaround time for providing the documents to the auditors.

We did not intend to perform a financial statement review of the AR line during this audit. However, while completing our work we identified several issues that impact the auditability of the line. In consideration of the issues related to auditability, we reviewed the Office of Under Secretary of Defense (Comptroller) / Chief Financial Officer Financial Improvement Audit Readiness (FIAR) Plan, dated December 2005, and the DFAS Strategic Plan, developed in September 2004, and identified the following management goals related to the NGF AR line:

- The FIAR states that the NGF Balance Sheet accounts receivable line will be ready for validation and submission of an assertion package to the Executive Steering Committee¹ on September 30, 2007.
- The DFAS Strategic Plan includes a strategic target, "To Receive an Unqualified Audit Opinion on the FY 2007 Financial Statements."

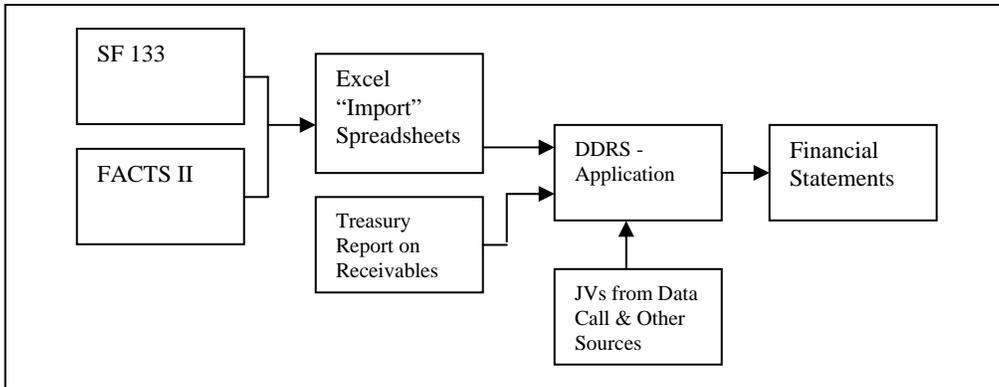
Navy General Fund: The Department of the Navy reported \$311,517,857,000 in assets on the FY 2005 Balance Sheet and the AR balance was valued at \$3,548,961,000 (including the Intragovernmental and Public portions). Accounts

¹ The Department of Defense Financial Improvement Executive Steering Committee reviews the assertion package to make sure the Component is presenting an assertion that will likely pass the scrutiny of an independent audit.

Receivable transactions are processed at DFAS Cleveland and at the following operating locations: Charleston, South Carolina; Norfolk, Virginia; Oakland, California; Pearl Harbor, Hawaii; Yokota, Japan; Pensacola, Florida; and San Diego, California.

Defense Departmental Reporting System-Audited Financial Statements Module. DDRS-AFS system module is a DoD computer application that facilitates the preparation of all DoD Audited Financial Statements, management reports, Required Supplementary Information reports, and trend analysis reports. It standardizes the DoD departmental reporting process and produces the quarterly departmental financial report based on USSGL and standard attributes. The DDRS-AFS application is revised quarterly to accommodate financial reporting to the Office of the Under Secretary of Defense. In addition, the DDRS-AFS application provides the required reconciliation within and between reports, as established by Office of the Under Secretary of Defense.

Preparation of the Navy General Fund Financial Statement. The Audited Financial Statements branch of the DFAS Cleveland Corporate Initiatives Division received several departmental level reports that were produced by the General Fund Division. The reports include the Report on Budget Execution (SF 133), Federal Agencies Centralized Trial Balance System - Budgetary (FACTS II), and Treasury Report on Receivables (TROR), all used to prepare financial statements. DFAS personnel use an Excel “import” spreadsheet to compile a basic United States Standard General Ledger (USSGL) trial balance that is subsequently imported into the DDRS-AFS. After the spreadsheet process is complete, the majority of the remaining financial data is obtained by data calls from various sources and entered into DDRS-AFS by journal voucher to complete the financial statements. The following figure shows the flow of financial statement information from the departmental level reports through the DDRS-AFS and to the NGF financial statements.



Objective

Our overall audit objective was to determine whether the Department of the Navy and DFAS complied with applicable laws and regulations related to the processing of receivables, reimbursables, and collections. Specifically, we

attempted to test all types of receivable, reimbursable, and collection transactions for compliance with established guidance. In order to accomplish our audit objective we needed to obtain a universe of transactions to test. We were not able to obtain a universe of transactions by the established deadline. As a result, we were not able to achieve the principal audit objective. We reviewed the internal control program as it related to the audit objective. See Appendix A for a discussion of the scope and methodology, and a discussion of prior coverage related to the objectives.

Review of Internal Controls

DoD Directive 5010.38, "Management Control (MC) Program," and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," 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.²

Scope of the Review of the Internal Control Program. We assessed the adequacy of DFAS Cleveland internal control over procedures to collect, adjust, reconcile, and report the AR balance within the Mid-year FY 2005 NGF Financial Statements. Specifically, we reviewed the trading partner elimination process and TROR reporting process. We also assessed management's self-evaluation of those controls.

Adequacy of Internal Control. We identified material internal control weaknesses at DFAS Cleveland Center, as defined by DoD Instruction 5010.40. Because of inadequate accounting systems, adjustments made by DFAS Cleveland to match buyer-side data and seller-side data could not be supported (see finding A). This internal control weakness has been acknowledged by the Assistant Secretary of the Navy (Financial Management and Comptroller) in a management representation letter for the FY 2005 NGF Financial Statement. Because of the insufficient internal controls, DFAS was unable to ensure that all the supporting documentation for the TROR was adequately retained (see finding B). Also, DFAS inability to provide a timely universe will impede a financial audit and other valid audit testing of the AR line (see finding C).

The control weaknesses identified and our recommendations for improvements are discussed in the Finding section. Our recommendations, if implemented, will improve controls over the trading partner elimination process, the TROR reporting process, and the ability to provide a universe of receivable transactions for the NGF. A copy of this report will be provided to the senior official responsible for internal controls in DFAS Cleveland and the Naval Supply Information Systems Activity.

² Our review of internal controls was done under the auspices of DoD Directive 5010.38, "Management Control Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control Program Procedures," August 28, 1996. DoD Instruction 5010.40, "Managers' Internal Control Program," was reissued on January 4, 2006 and DoD Directive 5010.38 has been canceled.

Adequacy of Management’s Self-Evaluation. DFAS Cleveland’s self-evaluation was not complete. DFAS Cleveland did not identify the process for collecting, adjusting, reconciling, and reporting trading partner elimination and TROR within its assessable units and, therefore, did not identify or report the material internal control weaknesses that the audit identified.

A. Supporting Adjustments for Trading Partner Transactions

DFAS Cleveland performed departmental level trading partner adjustments valued \$51.8 million that ultimately impacted the Mid-Year FY 2005 Balance Sheet. However, DFAS provided insufficient documentation to support the adjustments or to trace transaction amounts to source data. As a result, auditors were not able to verify \$51.8 million in trading partner adjustments to the accounts receivable balance sheet amount. Inability to document adjustments and transaction amounts significantly impacts the audit readiness of Accounts Receivable.

Guidance

Audit Trail Guidance. DoD regulation 7000.14-R, Volume 1, Chapter 3, Key Accounting Requirement Number 8, states that audit trails should allow a transaction to be traced from initiation through processing to financial reports. A key test of the adequacy of an audit trail is whether tracing the transaction forward from the source or back from the result will permit verification of the amount recorded or reported. DoD Regulation 7000.14-R, volume 6, chapter 2, Section 020203 requires DoD Components to ensure that audit trails are maintained in sufficient detail to permit tracing of transactions from their sources until their transmission to DFAS. In addition, DFAS Regulation 7900.4G, Chapter 14, “Audit Trail and System Control,” requires that all transactions, including computer-generated computations, be traceable to individual source records.

Adjustment and Elimination Guidance. DoD regulation 7000.14-R, Volume 6B, Chapter 13, “Adjustments, Eliminations, and Other Special Intragovernmental Reconciliation Procedures,” Section 130201, requires that the corresponding amounts reported by the buyer must be adjusted to match the seller records.³ Any allocation method used must be documented and appropriate documentation must be maintained.

Trading Partner Adjustments

Adjustments to Match Seller-Side Information. Generally, DFAS systems do not capture buyer-side records that would enable a detailed reconciliation of the trading partner elimination process. As a result, DFAS followed guidance in DoD Regulation 7000.14-R, Section 130201, which requires that the buyer-side information be adjusted to match the seller-side information. DFAS Cleveland

³ Trading Partner adjustments relate to intragovernmental transactions. These transactions occur between Government agencies with one agency being the buyer and the other agency the seller. The transactions are subject to elimination entries to remove the effects of intragovernmental transactions from the Balance Sheet.

captured Navy seller-side elimination data using reimbursable work orders. These data are extracted from Standard Accounting Reporting System (STARS) Field Level and STARS Headquarters Command Level modules. Additionally, reimbursable work order data are obtained by data call from the Bureau of Naval Personnel, Naval Air Systems Command Enterprise Resource Planning and National Defense Sealift Fund. For the FY 2005 Mid-year Financial Statements, DFAS Cleveland made 12 adjustments, valued at \$48,998,204, to match buyer-side data with seller-side data.

DFAS Cleveland provided 23 e-mails, 35 spreadsheet files, 3 text files, 3 database files, and 272 journal voucher entries as supporting documentation for trading partner adjustments. The support provided included eight adjustments totaling \$5,467,845 that were attributed to waived entities.⁴ DFAS told auditors they made the remaining adjustments to match buyer-side data with seller-side data. Although DFAS Cleveland provided a data file to support trading partner adjustments, these data files did not adequately identify how amounts were used to prepare the adjustments. Instead, supporting spreadsheets contained nonspecific amounts and lacked details necessary, such as titles, sources, and totals for auditors to trace the data.

Additional Trading Partner Adjustments. After DFAS Cleveland made the departmental level seller-side adjustments that ultimately impacted DDRS-AFS, they posted a second set of adjustments totaling \$2,850,864. DFAS Cleveland accountants could not support those adjustments. When asked about the purpose of these adjustments, DFAS stated it was to adjust for differences that reflected accounts balance attribution to the proper trading partner USSGL accounts. DFAS must be able to fully support all adjustments. In other words, DFAS Cleveland should be able to clearly identify the source of seller data that required the matching adjustment. Once it identifies the location at which adjustments are made, auditors can go to those activities to obtain the necessary supporting documentation.

We requested that DFAS Cleveland accounting personnel provide supporting documentation for all trading partner adjustments or identify source transactions supporting seller-side amounts. DFAS personnel indicated that each adjustment might comprise thousands or millions of transactions, and it would not be possible for them to provide the support documents. We recognize that DoD regulation 7000.14-R Section 130201 requires that the corresponding amounts reported by the buyer should be adjusted to match the seller records. However, Regulation 7000.14-R Section 130401 also states that appropriate documentation should be maintained for these allocation based adjustments. DFAS Cleveland needs to be able to identify sources of all financial data to enable auditors ultimately to test transactions impacting financial statements.

⁴ Waived entities are agencies that do business with the Department of Defense that DFAS Arlington deems to have more reliable financial information. Because the waived entities have better data, DFAS Arlington sends a list of waived entities to DFAS Cleveland notifying them to use the numbers provided by the identified waived entities.

Under current processes DFAS is unable to sufficiently provide data to identify transactions that make up reported balances. DFAS Cleveland needs to put in place internal controls to clearly reconcile amounts reported on financial statements to detailed transactions in accounting systems.

Unreliable Reporting of Trading Partner Transactions

DoD Regulation 7000.14-R, volume 1, chapter 3, “Accounting Systems Conformance, Evaluation, and Reporting,” Key Accounting Requirement No. 8, states that a key test of the adequacy of an audit trail is whether tracing the transaction forward from the source or back from the result will permit verification of the amount recorded or reported. In addition, Defense Finance and Accounting Service Guide 7900.4G, Chapter 14, “Audit Trail and System Control,” dated November 2004, requires all transactions, including computer-generated computations, must be traceable to individual source records. DFAS Cleveland reported making 14 adjustments to the departmental level general ledger accounts as a result of trading partner transactions. However, DFAS Cleveland did not identify a complete audit trail for departmental level adjustments, totaling \$51.8 million, in trading partner transactions that ultimately impacted the reported Mid-year FY 2005 NGF Financial Statements. Because audit trails were not available, we were unable to determine whether the adjustments made by DFAS were supported and valid.

Timely Submission of Support Documentation. Subsequent to the completion of our audit, DFAS Cleveland indicated that it might be possible for them to provide transaction based data to support the Trading Partner adjustments. DFAS also provided a memorandum listing approved waived entities and an example of supporting documentation showing the amount to be adjusted. We acknowledged these were the types of documentary support we were looking for during our audit. DFAS Cleveland needs to formalize the process in which they make and support Trading Partner adjustments. Complete and detailed records must be maintained and readily available.

Recommendations, Management Comments, and Audit Response

A. We recommend that the Director, Defense Finance and Accounting Service Cleveland fully document the processes used to make trading partner adjustments. Specifically, Defense Finance and Accounting Service Cleveland should:

- 1. Develop specific controls, in current and future accounting systems, to ensure that all changes to accounting data, regardless of origin, are properly documented, and that financial data are easily identified with a source activity.**

Management Comments. The DFAS Cleveland Central Site Director concurred in principle, stating that DFAS Cleveland Accounting Operations, General Fund AFS, provided the auditors with data that were used to gather and summarize accounts receivable elimination data. The Director stated that one adjustment mentioned was an entry made in error that was corrected and subsequently documented in DDRS-AFS. Although the remaining adjustments may not be specifically identifiable to individual source transactions, DFAS stated that, under the current legacy system environment, they have properly documented trading partner adjustments. DFAS gives an approximate completion date of Fiscal Year 2011 when the Navy Enterprise Resource Planning will be established and indicates that future accounting systems must be able to provide an audit trail from source transactions to the financial statement line items. Furthermore, DFAS suggested that this recommendation should be addressed to the Navy since the Navy plays an active role in ensuring that future accounting systems (Enterprise Resource Planning) will provide complete audit trails.

Audit Response. The Defense Finance and Accounting Service Cleveland Central Site Director's comments were partially responsive. We are aware of the Trading Partner requirements in DoD Regulation 7000.14-R, specifically, the requirement that Defense Finance and Accounting Service use the amounts provided by waived entities. We acknowledge that support was provided for the eliminations. While we were performing our audit work we requested an explanation as to which documents supported which adjustment and how amounts adjusted were calculated. Defense Finance and Accounting Service provided adjustment data; however, it did not specifically explain or support identified journal vouchers. We were unable to determine the reason for or support the adjustments using the documentation provided. We understand the limitations of the legacy accounting systems but again recommend that Defense Finance and Accounting Service develop a control to document the processes used to make trading partner adjustments prior to the implementation of Navy Enterprise Resource Planning systems. Having these procedures in place before new Navy systems are implemented will provide a higher level of internal control when the transition is made. We request that DFAS reconsider its position and provide comments on the final report.

2. Improve record keeping and audit trails, especially for Trading Partner adjustments, and ensure that accountants understand adjustment amounts and can readily identify activities that maintain source documents, thereby helping to comply with guidance in the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer's memorandum "Financial Improvement Initiative Business Rules."

Management Comments. The Defense Finance and Accounting Service Cleveland Central Site Director concurred in principle, stating that Defense Finance and Accounting Service Cleveland maintains an audit trail history of the Trading Partner process on Defense Finance and Accounting Service Shared Drive, which is backed up to disk. The accountant tasked with the elimination process also maintains hard copy details of the process for each quarter.

Defense Finance and Accounting Service Cleveland agrees that financial data should readily identify activities that maintain source documents; however, legacy

accounting systems prevent easy identification of source documentation. DFAS further stated that the Department of Defense business transformation effort (under the Business Enterprise Information System umbrella) will support record keeping and improve audit trails in future accounting systems. The Navy is also transitioning from legacy accounting systems to Enterprise Resource Planning systems. Therefore, the Director suggested that this recommendation be addressed to the Navy because the Navy plays an active role in ensuring that future accounting systems maintain proper records and provide complete audit trails.

The Navy projects that Navy Enterprise Resource Planning systems will be completed around FY 2011; however, the final completion date will be affected by implementation of the DoD Business Enterprise Information System.

Audit Response. The Director's comments were partially responsive. We acknowledge that DFAS maintains documentation but the support needs to be organized so that it provides an explanation of the adjustments. We agree that DFAS can compensate by analyzing the summary data. If DFAS implements the compensating control over summary data analysis in coordination with the field sites and Navy activities, the completion date for this recommendation will not remain dependent on the transition to Navy Enterprise Resource Planning systems. No further comments are required.

B. Maintaining Adequate Audit Trails

DFAS Cleveland could not support \$449,133,195 reported on the Treasury Report on Receivables Due from the Public (TROR) and supported the remaining report balance with reproduced documentation rather than the authentic source documentation Navy used during report preparation. DFAS Cleveland reported \$3,010,743,438 due from the public on the March 31, 2005, TROR. DFAS uses the TROR to prepare Navy financial statements. Receivable amounts reported on the TROR must reconcile with the NGF financial statements. For the same reason that DFAS Cleveland was not able to support the amount reported on the TROR, NGF financial statement amounts may also be unsupported. The amounts are unsupported because DFAS Cleveland did not establish controls to ensure that all support documents were properly maintained and controlled. As a result, the amounts reported on the FY 2005 TROR could not be verified, and the lack of controls increased the risk of errors.

Unavailable Records

The TROR is the Department of the Treasury's means for periodically collecting data on the status and condition of the Federal Government's non-tax debt portfolio, in accordance with the requirements of the Debt Collection Act of 1982 and the Debt Collection Improvement Act of 1996. The TROR is used to provide the aging status of public receivables to the Treasury. It also is used as a tool in reconciling Navy Financial Statements. The FY 2005 Second Quarter TROR prepared by DFAS Cleveland showed the ending balance amount of \$3,010,743,438. The following sums comprise the AR balance.

- \$2,555,903,729 contractor AR reported off-line by the Contractor Debt System
- \$2,380,058 reported by the Mechanization of Contract Administration Service System
- \$3,326,456 reported by the Defense Civilian Pay System
- \$449,133,195 from appropriation-level reports.

DFAS Cleveland used Excel spreadsheet files provided by the Departmental Reporting Procurement Branch to support debt amounts from three automated system extracts (Contractor Debt System, Mechanization of Contract Administration Service System, and the Defense Civilian Pay System). Using Excel spreadsheets instead of obtaining the data directly from the automated systems does not provide actual support and allows for the potential of manual

errors. Although the system extract amounts due from the public were originally reported on the DFAS e-Portal⁵ by Navy field activities, DFAS Cleveland accountants used a spreadsheet that estimated the NGF activity (that is, Index 17 classification) and removed amounts for other indexes. This procedure increases the risk that data might be different from original financial applications because of missing data or mistakes.

DFAS Cleveland accountants created the NGF TROR using input from appropriation level reports and the three system extracts. When we requested that DFAS Cleveland personnel provide the supporting documentation used to prepare the summary TROR, they were unable to provide the source binder. Some portions were re-created but the original work was not available for review. Source records, including computer-generated computations, must be traceable and adequately maintained. DFAS should implement controls related to record retention to ensure supporting documentation is retained. This lack of adequate internal control is material.

Controlling Records

Because DFAS did not adequately safeguard documents, the auditability and reliability of the March 31, 2005, TROR report was diminished. DFAS was unable to provide any records to support \$449,133,195 from appropriation-level submissions. DFAS personnel were able to re-create records that consisted of three spreadsheets to support \$2,561,610,243. The spreadsheets did not clearly identify their source but DFAS Cleveland accountants said they represented Contractor Debt System, Mechanization of Contract Administration Service System, and Defense Civilian Pay System data for the NGF. Auditors could not verify that the spreadsheet file DFAS provided was unaltered from the original source documents or that the re-created file DFAS provided was the same that DFAS used to prepare the TROR. The safeguarding of records is specifically discussed in the following regulations:

- Office of the Under Secretary of Defense (Comptroller) “Financial Improvement Initiative Business Rules,” dated June 23, 2004, requires that records be reconciled and available. Specifically, management should document processes, identify controls and systems, and ensure that an auditable universe of transactions and supporting documentation is readily available.
- DoD regulation 7000.14-R, volume 6A chapter 2, “Financial Reports Roles and Responsibilities,” Section 020203, requires that supporting documents or images of supporting documents should be retained by the organization that translates the information into an electronic mode.

⁵ The e-Portal is the DFAS integrated environment for accessing information, conducting business, and managing operations. During the course of our audit we were told the e-Portal contained varied reports including the TROR and data from sources such as Contractor Debt System, Mechanization of Contract Administration Service System, and Defense Civilian Pay System.

-
- DFAS Regulation 7900.4G, chapter 14, “Audit Trails and System Controls,” requires that all transactions, including computer-generated computations, must be traceable to individual source records.

Recommendations, Management Comments, and Audit Response

B. We recommend that the Director, Defense Finance and Accounting Service Cleveland:

1. Implement internal control procedures to ensure record retention of documents that provide the audit trail to Treasury Report on Receivables reported amounts.

2. Include written controls in Standard Operating Procedures to ensure source documentation is maintained and safeguarded. Where appropriate, backups of electronic data should be archived.

3. Develop processes to enable Defense Finance and Accounting Service Cleveland to comply with the Department of Defense Regulation 7000.14-R, volume 6A chapter 2 section 020203, Defense Finance and Accounting Service Regulation 7900.4G, chapter 14, and Office of the Under Secretary of Defense (Comptroller) “Financial Improvement Initiative Business Rules.” Specifically, this regulation discusses the ability to provide an auditable universe of transactions and that supporting documentation must be made available.

Management Comments. The Defense Finance and Accounting Service Central Site Director concurred and stated that Defense Finance and Accounting Service would revise the Standard Operating Procedures for the General Fund Treasury Report on Receivables to ensure that source documentation is properly maintained. The Director further stated that the Department of Defense business transformation effort (under the Business Enterprise Information System umbrella) will support the improvement of audit trails in future accounting systems as the Navy transitions from legacy accounting systems to Enterprise Resource Planning. The Director suggested that this recommendation be addressed to the Navy because the Navy plays an active role in ensuring that future accounting systems maintain proper records and provide complete audit trails.

The Standard Operating Procedures on the Treasury Report on Receivables for the current legacy system operating environment will be updated by December 1, 2006. However, the final completion date will be determined by the implementation of the Business Enterprise Information System.

Audit Response. The recommendation is addressed to Defense Finance and Accounting Service because Defense Finance and Accounting Service is the Navy accountant. Defense Finance and Accounting Service may wish to coordinate with the Navy in its response to the final report.

C. Universe of Account Receivable Transactions

DFAS Accountants in coordination with the Naval Supply Information Systems Activity (NAVSISA) were not able to provide a timely universe of AR transactions as of March 31, 2005. Our initial request for a universe of receivable transactions from STARS-FL was made on July 7, 2005. We had not received a universe by January 9, 2006. DFAS did not provide us a universe of transactions because DFAS accountants and the STARS Project Management Office were uncertain of what comprises a universe. The inability to timely extract a universe from STARS-FL impedes the auditability of AR transactions.

Universe of Transactions

The FY 2005 Navy General Fund Balance Sheet for AR line reported \$3,548,961,000. AR includes receivables, reimbursables, and collections processed through the Navy STARS accounting system. Our audit objective did not include performing an AR line financial statement review. However, we determined that the best way to test for compliance of specific transactions, an announced audit objective, would be to obtain a universe of transactions and select a statistical sample. When auditors requested a universe to support the AR balance, DFAS asked auditors to explain what a universe would include. The ability to identify and provide a universe is an essential part of financial statement audits and is required to test transactions for compliance. According to current business rules, asserting entities must be able to provide detailed transaction level activity that comprises the balance being reported. While the Navy and DFAS have not asserted audit readiness for accounts receivable, a realistic understanding of the current environment is needed. A complete universe of receivable transactions would be reconcilable to the amount reported on the balance sheet thereby verifying all transactions were reported. The inability to provide a universe not only impeded accomplishment of our audit objective but also impedes a financial audit of the AR line and other valid audits.

STARS-FL Environment

DFAS Cleveland was not able to identify and reconcile what transactions within STARS-FL supported the AR amount reported on the mid-year balance sheet. DoD OIG auditors and the STARS Project Management Office personnel exchanged information in formal meetings, phone calls, and e-mail, in an effort to establish what transactional STARS-FL data should be part of an AR universe. It is the responsibility of DFAS to identify what information STARS-FL contains and how it relates to the amounts reported on the NGF Financial Statements.

DFAS inability to define and provide a universe of transactions significantly impacts the auditability of AR contrary to DoD and the Navy's audit readiness plan.

The NGF AR line is listed in the Financial Improvement Audit Readiness Plan as ready for validation, with plans to submit an assertion package to the Executive Steering Committee on September 30, 2007. According to the FIAR Business Rules, at the time the assertion is submitted management should be able to provide sufficient audit ready evidential matter to support all transactions and adjustments and be able to provide documentation to auditors upon request. DFAS and the Navy have much to accomplish if they are going to meet these established goals.

Request for a Universe of Transactions

On July 7, 2005, auditors requested a universe of all receivable transactions from STARS-FL that were recorded as of March 31, 2005. DFAS did not provide a universe as of January 9, 2006. DFAS Cleveland's STARS Project Management Office and NAVSISA should be able to provide a complete transaction record and show how the amount extracted from the STARS-FL system reconciles to the AR amount reported on the Balance Sheet. When the initial request was made for a universe of transactions, the Audit Liaison did not initially send us to the STARS group. After a meeting with the DDRS-AFS area, DFAS determined that the STARS Project Management Office would be the best source for a transaction based universe. The STARS Project Management Office asserted that STARS-FL should contain all receivable transactions. The STARS Project Management Office had 6 months to answer the auditors' request but did not provide the universe of data requested of them by the established deadline. A task order to extract the data was prepared on August 8, 2005, approximately 1 month after the initial request. When auditors were informed the task order was complete (after the 6 month deadline) DFAS still did not assert that the full universe was provided.

Summary

The inability to timely extract a universe from STARS-FL impedes auditability of AR transactions. Inability to extract a universe in 6 months is unacceptable. STARS is described as a real-time accounting system which provides for processing and reporting of general fund accounting functions for the Navy. In order for financial statements to be audited, the transactions that make up their balances must be identified. The universe of transactions should be reconciled to the amount reported to ensure it is complete. The FIAR Plan has the NGF AR line scheduled for assertion on September 30, 2007. As stated in the Financial Improvement Business Rules, DFAS should be able to provide sufficient audit-ready evidential matter to support all transactions when ready for assertion. Supporting documentation should be promptly provided to auditors upon request.

Because DFAS was not able to provide the universe of transactions by the established deadline, auditors were not able to perform tests on the source records.

Department of the Navy and DFAS should re-examine the status of the AR line in an effort to understand the auditability issues such as defining and reconciling a universe of transactions and maintaining proper support for those transactions.

Recommendations, Management Comments, and Audit Response

C. We recommend that the Director, Defense Finance and Accounting Service Cleveland in coordination with the Director, Naval Supply Information Systems Activity develop a methodology to obtain a universe of accounts receivable transactions that supports the Accounts Receivable amounts reported on the Balance Sheet. Specifically, Defense Finance and Accounting Service and Naval Supply Information Systems Activity need to:

1. Define the transaction level data that support the accounts receivable balance reported on the Department of the Navy Balance Sheet.

2. Reconcile accounts receivable balance reported on the financial statement to all data sources, specifically:

a) Document and quantify all sources of accounts receivable financial data being used to prepare financial statements.

b) Provide a detailed listing of processes, procedures, and information systems that are used to consolidate and report forward the accounts receivable balances for all sources of financial data.

c) Develop procedures allowing Defense Finance and Accounting Service to identify and extract transaction level data supporting the reported amounts on consolidated reports to comply with Office of the Under Secretary of Defense (Comptroller) "Financial Improvement Initiative Business Rules," dated June 23, 2004, and Office of the Inspector General memorandum, "Auditor Access for Financial Statement Audits," dated January 24, 2005.

Management Comments. The Defense Finance and Accounting Service Cleveland Site Director concurred in principle and stated that DFAS Cleveland Accounting Operation Branch defined and quantified all sources of accounts receivable financial data used to prepare the financial statements. The Director stated that DFAS Cleveland made available a portion of the detailed transactional support from STARS.

The Director stated that the DoD business transformation effort (under the Business Enterprise Information System umbrella) will support the development of audit trails from source transactions to financial statement line items and that the Navy is transitioning from legacy accounting systems to Enterprise Resource

Planning systems. Therefore, DFAS suggested that this recommendation should be addressed to the Navy since the Navy plays an active role in ensuring that future accounting systems maintain proper records and provide complete audit trails. The Navy projects that transition to Navy Enterprise Resource Planning will be complete around FY 2011; however, the final completion date will be affected by the transition to the Business Enterprise Information System.

Audit Response. The Director's comments are not responsive and do not address the key topic of providing, reconciling, documenting, and quantifying all sources of accounts receivable financial data that support the Balance Sheet. DFAS never defined the transaction level data that supported the amount reported on the Department of the Navy Balance Sheet. DFAS Cleveland discussed summary level support for the Balance Sheet in its response rather than the transaction level support auditors discussed in the recommendation. Auditors were told the only transaction level data that was available was resident in STARS. When we requested a universe of transactions from the STARS system we were told it would not balance to the AR line on the March 31, 2005, Balance Sheet. Auditors did not receive the STARS data until after the established deadline. However, the data were voluminous and not in a format allowing auditors to readily perform adequate tests based upon the auditors' testing and sampling methodology. DFAS needs to establish processes where all amounts reported on financial statements are auditable to detailed documents. We request that DFAS reconsider its position on developing a methodology to obtain a universe of accounts receivable transactions that supports the AR amounts reported on the Balance Sheet, and provide comments on the final report.

Other Matters of Interest

Auditors were informed that the data extracts we requested were available on January 24, 2006, after the deadline had lapsed. Because the information requested for the universe was "as of March 31, 2005," it was almost a year old when it was available. We decided to note the availability of the data but not perform further audit work in the area. According to the Project Design Document⁶ from NAVSISA, "the requested accounts receivable information in the desired format are not provided on a routine basis to the customer." In other words, they do not perform this type of query or extract this information from the system for their customer. They also indicated a single "query" for all data is not feasible because of the significant volume of data. According to the Project Design Document provided by NAVSISA the "extracted data should reconcile to the related USSGL reported for the AR for period ending March 31, 2005, and assist the DoD OIG with rendering an audit opinion on the Department of the Navy AR balances maintained in STARS-FL." DFAS never assured auditors that the data extracted from the system would be a complete universe of receivable transactions. DFAS wanted to review the extracted data with auditors to ensure it contained the data we requested. Although it is not the responsibility of auditors to determine whether the queried data comprise a complete universe, we plan to perform additional work in this area in the future.

⁶ Project Design Document was the title given to the document prepared by NAVSISA in response to our request for a STARS-FL query.

Appendix A. Scope and Methodology

We defined our scope to be all transactions supporting the AR balance as reported on the Mid-Year FY 2005 NGF Financial Statements. We attempted to trace the flow of financial data down to the transaction level, obtain a universe of those transactions, and then reconcile that data to the amount shown on the financial statement. A reconciliation of the amounts would ensure the data reported on the financial statements accurately reflect the transactions that make up the balance. Notwithstanding the tracing and reconciling of AR balances, we requested a universe of AR transactions residing in the STARS-FL system as of March 31, 2005, in order to perform transactional testing. In a financial statement audit, a transaction sample would be selected for testing to ensure compliance with guidance, proper classification, and support. DFAS Cleveland was unable to provide a timely universe for auditors to sample from and test. The inability to obtain a timely and reconciled universe of transactions was a scope limitation. Our steps to trace the funds from the Balance Sheet started with DDRS-AFS. We determined the following are sources of the AR line in DDRS-AFS:

- The SF-133, Report on Budget Execution,
- FACTS II, Federal Agencies Centralized Trial Balance System-Budgetary,
- Treasury Report On Receivables (TROR),
- DDRS Beginning Balance amounts, and
- Journal Vouchers (JVs).

The scope of our audit was limited to STARS-FL, DDRS-AFS and the TROR. We were unable to follow the flow of funds because of numerous adjustments that were not traceable. We were not able to verify the source of the TROR data since the hardcopy documents used to prepare the TROR were not provided. Tests of compliance with guidance, classifications and support were to be performed on a sample pulled from the universe of transactions. We were not provided a timely universe of transactions from which to select a sample. We performed this audit from May 2005 through April 2006 in accordance with generally accepted government auditing standards.

Use of Computer-Processed Data. DFAS Cleveland used DDRS-AFS to consolidate and summarize financial information recorded in various field-level systems. We did not evaluate the financial information reported to DDRS-AFS, nor did we evaluate the general or application controls over DDRS-AFS. We concluded that the data were sufficiently reliable to meet the audit objective. Not evaluating the controls did not affect the results of the audit.

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

Prior Coverage

No prior audit coverage has been conducted on receivables, reimbursables, and collections processed by DFAS during the last 5 years. However, DFAS Internal Review performed a review of the Department of the Navy AR line from March 2005 through September 2005. The review objective was to determine whether DFAS Navy Accounting Services complied with the Concept of Operations for Managing Accounts Receivable, issued in August 2003. The review found that DFAS Navy Accounting Services did not properly implement the DFAS Concept of Operations for Managing Accounts Receivable and that the DFAS Navy Accounting Services did not develop and implement adequate internal controls related to the Concept of Operations for Managing Accounts Receivable.

Appendix B. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)/Chief Financial Officer
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)
Director, Program Analysis and Evaluation

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Naval Inspector General

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)

Combatant Command

Inspector General, U.S. Joint Forces Command

Other Defense Organizations

Director, Defense Finance and Accounting Service Arlington
Director, Defense Finance and Accounting Service Cleveland
Director, Defense Contract Audit Agency
Inspector General, Defense Intelligence Agency
Director, Defense Contract Management Agency
Director, Defense Logistics Agency
Director, National Security Agency
Director, Defense System Management College

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 Homeland Security and 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 and Financial Management, Committee on Government Reform
House Subcommittee on National Security, Emerging Threats, and International Relations, Committee on Government Reform
House Subcommittee on Government Efficiency and Financial Management
House Subcommittee on Technology, Information Policy, Intergovernmental Relations, and the Census, Committee on Government Reform

Defense Finance and Accounting Service Cleveland Comments



DEFENSE FINANCE AND ACCOUNTING SERVICE
CLEVELAND
1240 EAST NINTH STREET
CLEVELAND, OH 44199



AUG 28 2006

DFAS-CL/ADB

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCIAL AUDITING SERVICE,
OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT OF
DEFENSE (ATTN: MR. RAYMOND KIDD)

SUBJECT: Office of the Inspector General Draft Report, Project No. D2005-D000FC-0186.000,
"Accounting for Department of the Navy General Fund Accounts Receivable," dated
July 12, 2006

The Defense Finance and Accounting Service is providing the attached general comments
and response to Recommendations A.1, A.2, B.1, B.2, B.3, C.1, C.2.a, C.2.b, and C.2.c of the
subject draft audit report in Attachment 1.

The point of contact is Mr. Stanley Koch. Mr. Koch can be reached at 216-204-7066 or
DSN 580-5628.


Martha J. Stearns
Central Site Director

Attachment:
As stated

cc:
DFAS-DDI/AR

www.dfas.mil
Your Financial Partner @ Work

**DFAS Comments to DoD IG Draft Report, Project No. D2005-D000FC-0186.000,
"Accounting for Department of the Navy General Fund Accounts Receivable,"
Dated July 12, 2006.**

General Comments on Report Statements:

**Background. Defense Departmental Reporting System-Audited Financial
Statements Module. Page 2.**

Management Comments. The statement "The DDRS-AFS application is revised annually..." is inaccurate. DDRS-AFS is revised quarterly with new guidance and requirements based upon timing in relation to issuance of that guidance to the applicable quarter end.

**Background. Preparation of the Navy General Fund Financial Statement. Pages 2-
3 referenced flowchart figure.**

Management Comments. The flowchart figure showing the flow of financial statement information needs to be revised. TROR data is not incorporated into Excel "import" spreadsheets. Public receivables data from the TROR is recorded by journal voucher into the DDRS-AFS application.

Finding A. Supporting Adjustments for Trading Partner Transactions.

Recommendation A. We recommend that the Director, Defense Finance and Accounting Service Cleveland fully document the processes used to make trading partner adjustments. Specifically, Defense Finance Accounting Service Cleveland should:

A.1. Develop specific controls, in current and future accounting systems, to ensure that all changes to accounting data, regardless of origin, are properly documented, and that financial data are easily identified with a source activity.

Management Comments. Concur in principle. The findings state that DFAS Cleveland made fourteen adjustments totaling \$51.8 million, and that these adjustments were not traceable to individual source records. DFAS Cleveland Accounting Operations, General Fund AFS, provided the auditors with emails, source data that we used in the compilation process, summary worksheets and the database/excel process that we use to gather and summarize accounts receivable elimination data.

Changes to the accounting data for eight adjustments, or \$5,467,936.02 were for DOD Components that are exempt (waived) from the seller side elimination. These processes are fully documented and supported. DOD FMR Guidance, Volume 6b, Chapter 13, provides guidance for the waived entity adjustment process. DFAS Arlington quarter end AFS guidance provided a copy of the waiver memorandum signed by the Undersecretary of Defense. Waived entity email documents, including supporting adjustment schedules, were provided to the audit staff. Although we preferred to have transactional support,

Revised

Revised

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there was no requirement for DFAS Cleveland or the DON to obtain it unless the waived amounts were in dispute. One adjustment mentioned for \$2,850,864.62 was an entry made in error by the elimination accountant during the reporting process. This adjustment was discovered and subsequently corrected (reversed) during the quarter end process. This correction is documented in DDRS-AFS. Three corrections totaling \$12,202,166.32 were made for abnormal balances to comply with DOD FMR Volume 6b, Chapter 13, paragraph 130405, which provides guidance on eliminating abnormal balances before exchanging trading partner data. The remaining adjustment totaling \$31,328,191.61 was made to bring seller trading partner data into alignment with ledger balances at the departmental level. This adjustment may not be specifically identifiable to individual source transactions due to the limitations of legacy accounting systems and data that is obtained from data calls. This adjustment was made as a Navy to Navy adjustment to minimize the impact on the DOD trading partner data exchange. Under the current legacy system environment we are of the opinion that we have properly documented trading partner adjustments.

However, we do agree that future accounting systems must be able to provide an audit trail from source transactions to the financial statement line item. The DOD business transformation effort under the Business Enterprise Information System (BEIS) umbrella is supporting audit trail development in the future accounting systems. The Navy is also migrating from legacy accounting systems to Enterprise Resource Planning (ERP). The Navy must play an active role in ensuring that future accounting systems (ERP) will provide complete audit trails as a feeder to the BEIS. This recommendation should also be addressed to the Navy.

Estimated Completion Date. Approximate Fiscal Year 2011, for the stand up of Navy ERP; however, final completion date will be affected by the roll out of BEIS.

A.2. Improve record keeping and audit trails, especially for Trading Partner adjustments, and ensure that accountants understand adjustment amounts and can readily identify activities that maintain source documents, thereby helping to comply with guidance in the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer’s memorandum “Financial Improvement Initiative Business Rules.”

Management Comments. Concur in principle. The recommendation requests that we, in part, “Improve record keeping and audit trails, especially for Trading Partner adjustments.” DFAS Cleveland Accounting Operations, Navy General Fund AFS, maintains an audit trail history of the Trading Partner process each quarter. Documentation is maintained on our LAN Shared Drive, which is backed up to disk (CD) and includes: waived entity emails, waived entity supporting schedules, a copy of the RWO Access data base/Excel process, emailed correspondence, DDRS-AFS trading partner trial balance import sheets and seller side trading partner elimination summary worksheets, that log the TP adjustments made to the compiled source data. The

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accountant tasked with the elimination process also maintains hard copy details of the process for each quarter.

The recommendation further states, “...and ensure that accountants understand adjustment amounts.” The accountant was new to the position and in training. The accountant has since been trained.

The recommendation also states “...readily identify activities that maintain source documents.” We agree that financial data should readily identify activities that maintain source documents. In our current environment legacy accounting systems prevent easy identification of the source. However, we can compensate by analyzing the summary data. Navy General Fund Performers are identified in the STARS RWO tables by the index, appropriation, subhead, document number, STARS region and USSGL account balances in year to date and/or inception to date (YTD and ITD) amounts. Navy activities can be identified by analyzing the process using the raw RWO data that we extract from STARS to identify the document number and the DFAS field site. The document number will contain the UIC but assistance may be needed from the respective DFAS field site to identify, by document, the Navy activity associated with the reimbursable work orders.

The DOD business transformation effort under the BEIS umbrella is supporting record keeping and improving audit trails in the future accounting systems. The Navy is also migrating from legacy accounting systems to ERP. The Navy must play an active role in ensuring that future accounting systems (ERP) will maintain proper records and provide complete audit trails as a feeder to the BEIS. This recommendation should also be addressed to the Navy.

Estimated Completion Date. Approximate Fiscal Year 2011, for the stand up of Navy ERP; however, final completion date will be affected by the roll out of BEIS.

Finding B. Maintaining Adequate Audit Trails.

Recommendation B. We recommend that the Director, Defense Finance and Accounting Service Cleveland:

B.1. Implement internal control procedures to ensure record retention of documents that provide the audit trail to Treasury Report on Receivables reported amounts.

Management Comments. Concur. DFAS Cleveland Accounting Operations, General Fund Reporting Operations and Maintenance, will revise the Standard Operating Procedures for the General Fund Treasury Report on Receivables (TROR) to ensure that source documentation is properly maintained. Electronic data will be maintained in a

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folder on the Shared Drive; all Shared Drive folder data is archived daily via the Altiris Recovery Solution Agent.

The DOD business transformation effort under the BEIS umbrella is supporting the improvement of audit trails in the future accounting systems. The Navy is also migrating from legacy accounting systems to ERP. The Navy must play an active role in ensuring that future accounting systems (ERP) will maintain proper records and provide complete audit trails as a feeder to the BEIS. This recommendation should also be addressed to the Navy.

Estimated Completion Date. We will update our Standard Operating Procedures on the TROR for the current legacy system operating environment by December 1, 2006. The final completion date will be determined by the roll out of BEIS.

B.2. Include written controls in Standard Operating Procedures to ensure source documentation is maintained and safeguarded. Where appropriate, backups of electronic data should be archived.

Management Comments. Concur. See the response to Recommendation B.1.

Estimated Completion Date. December 1, 2006.

B.3. Develop processes to enable Defense Finance and Accounting Service Cleveland to comply with the Department of Defense Regulation 7000.14-R, volume 6A, chapter 2, Defense Finance and Accounting Service Regulation 7900.4G, chapter 14, and Office of the Under Secretary of Defense (Comptroller) “Financial Improvement Initiative Business Rules.” Specifically, this regulation discusses the ability to provide an auditable universe of transactions and that supporting documentation must be made available.

Management Comments. Concur. See the response to Recommendation B.1.

Estimated Completion Date. December 1, 2006.

Finding C. Universe of Account Receivable Transactions.

Recommendation C. We recommend that the Director, Defense Finance and Accounting Service Cleveland in coordination with the Director, Naval Supply Information Systems Activity develop a methodology to obtain a universe of accounts receivable transactions that supports the AR amounts reported on the Balance Sheet. Specifically, Defense Finance and Accounting Service and Naval Supply Information Systems Activity need to:

**DFAS Comments to DoD IG Draft Report, Project No. D2005-D000FC-0186.000,
"Accounting for Department of the Navy General Fund Accounts Receivable,"
Dated July 12, 2006.**

C.1. Define the transaction level data that support the accounts receivable balance reported on the Department of the Navy Balance Sheet.

Management Comments. Concur in principle. DFAS Cleveland Accounting Operation Branches defined and quantified all sources of accounts receivable financial data used to prepare the financial statements. Auditors were provided support for the elimination processes, and official reports and reconciliations in support of the Accounts Receivable lines in the financial statements. PowerPoint process flows were provided to display the array of financial information obtained from sources within and outside of DFAS Cleveland control.

The universe of accounts receivable also includes data outside of DFAS Cleveland control and includes reimbursable transactional data from NAVAIR ERP, and the Navy Bureau of Personnel (BUPERS). These feeder systems supply summary trial balances to STARS and summary level reimbursable elimination data for the trading partner elimination process.

DFAS Cleveland Systems made available a portion of the detailed transactional support, from STARS. However, the data was voluminous and not in a format that the auditors could readily perform adequate testing based upon their testing and sampling methodology. By the time the audit field work was completed, the auditors could not perform the desired tests.

The DOD business transformation effort under the BEIS umbrella is supporting the development of the audit trails from source transactions to the financial statement line items. The Navy is also migrating from legacy accounting systems to ERP. The Navy must play an active role in ensuring that future accounting systems (ERP) will report transactional data and provide complete audit trails as a feeder to the BEIS. This recommendation should also be addressed to the Navy.

Estimated Completion Date. Approximate Fiscal Year 2011, for the stand up of Navy ERP; however, final completion date will be affected by the roll out of BEIS.

C.2. Reconcile accounts receivable balance reported on the financial statement to all data sources, specifically:

C.2.a. Document and quantify all sources of accounts receivable financial data being used to prepare financial statements.

Management Comments. See the response to Recommendation C.1.

Estimated Completion Date. See the response to Recommendation C.1.

**DFAS Comments to DoD IG Draft Report, Project No. D2005-D000FC-0186.000,
"Accounting for Department of the Navy General Fund Accounts Receivable,"
Dated July 12, 2006.**

C.2.b. Provide a detailed listing of processes, procedures, and information systems that are used to consolidate and report forward the accounts receivable balances for all sources of financial data.

Management Comments. See the response to Recommendation C.1.

Estimated Completion Date. See the response to Recommendation C.1.

C.2.c. Develop procedures allowing Defense Finance and Accounting Service to identify and extract transaction level data supporting the reported amounts on consolidated reports to comply with Office of the Under Secretary of Defense (Comptroller) "Financial Improvement Initiative Business Rules," dated June 23, 2004, and Office of the Inspector General memorandum, "Auditor Access for Financial Statement Audits," dated January 24, 2005.

Management Comments. See the response to Recommendation C.1.

Estimated Completion Date. See the response to Recommendation C.1.

Team Members

The Department of Defense Office of the Deputy Inspector General for Auditing, Defense Financial Auditing Service prepared this report. Personnel of the Department of Defense Office of Inspector General who contributed to the report are listed below.

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