

December 28, 2004



Financial Management

Reliability of U.S. Army Corps of Engineers, Civil Works, Fund Balance With Treasury and Unexpended Appropriations (D-2005-026)

Department of Defense
Office of the Inspector General

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Acronyms

CEEMIS	U.S. Army Corps of Engineers Enterprise Management Information System
CEFMS	U.S. Army Corps of Engineers Financial Management System
DoD FMR	Department of Defense Financial Management Regulation
DFAS	Defense Finance and Accounting Service
FMS	Financial Management Service
GAO	Government Accountability Office
OIG	Office of the Inspector General
OSD(C)	Office of the Secretary of Defense (Comptroller)
SFFAS	Statement of Federal Financial Accounting Standards
SOP	Standard Operating Procedures
USACE	U.S. Army Corps of Engineers



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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December 28, 2004

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE
(COMPTROLLER)/CHIEF FINANCIAL OFFICER
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Report on Reliability of U.S. Army Corps of Engineers, Civil Works,
Fund Balance With Treasury and Unexpended Appropriations (Report
No. D-2005-026)

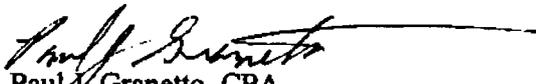
We are providing this report for review and comment. Comments from the Under Secretary of Defense (Comptroller)/Chief Financial Officer were received too late to be considered in preparing the final report; however, we considered comments from the U.S. Army Corps of Engineers when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The U.S. Army Corps of Engineers comments were partially responsive. Therefore, we request additional comments on Recommendations A.1.a., A.1.b., and A.1.c., by January 28, 2005. Comments from the Under Secretary of Defense (Comptroller)/Chief Financial Officer were received too late to be considered in preparing the final report. Therefore, if the Under Secretary of Defense (Comptroller)/Chief Financial Officer does not submit additional comments by January 28, 2005, we will consider the comments received as the response to the final report.

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

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. Douglas Neville at (703) 428-1061 (DSN 328-1061) or Mr. William W. Lemmon at (703) 428-1405 (DSN 328-1405). For the report distribution, see Appendix L. The team members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing:


Paul J. Granetto, CPA
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Office of the Inspector General of the Department of Defense

Report No. D-2005-026

December 28, 2004

(Project No. D2004FD-0044)

Reliability of U.S. Army Corps of Engineers, Civil Works, Fund Balance With Treasury and Unexpended Appropriations

Executive Summary

Who Should Read This Report and Why? This report is intended solely for the use of U.S. Army Corps of Engineers (USACE) and should not be used by anyone other than USACE. Generally accepted government auditing standards require the report to clarify its availability to the public. This report is a matter of public record and its distribution is not limited. This report contains guidance that the Department can follow to validate and assess the Fund Balance With Treasury accounts of the Department's other reporting entities.

Background. We performed this project in support of Public Law 101-576, the "Chief Financial Officers Act of 1990," November 15, 1990, as amended by Public Law 103-356, the "Federal Financial Management Act of 1994," October 13, 1994.

Reconciling Fund Balance With Treasury accounts, including the reconciliation of differences, is a key internal control process. Reconciliation ensures the reliability of the Government's receipt and disbursement data reported by agencies. Unresolved differences compromise the reliability of Fund Balance With Treasury account balances, the Treasury's published financial reports, and the overall status and integrity of the Government's financial position. As of December 31, 2003, DoD reported \$1.5 trillion in total assets, including \$593.8 billion in its Fund Balance With Treasury accounts.

Results. The attestation results will assist the USACE in its efforts to establish the beginning FY 2004 Fund Balance With Treasury and Unexpended Appropriations—Cumulative (Unexpended Appropriations) for the FY 2004 USACE, Civil Works, financial statements.

USACE did not comply with generally accepted accounting principles. Specifically, USACE recorded \$361.8 million of noncompliant funding in the U.S. Army Corps of Engineers Financial Management System (CEFMS) for the Fund Balance With Treasury and Unexpended Appropriations accounts. Furthermore, USACE did not establish Fund Balance With Treasury accounts in CEFMS for 7 of 47 expenditure and receipt accounts required by the United States Code and assigned by Treasury, and omitted \$1.3 billion (absolute value) of transactions applicable to the accounts. Finally, USACE commingled appropriation warrants and nonexpenditure transfers in the CEFMS subsidiary accounts for Fund Balance With Treasury. As a result, USACE did not maintain reliable funding information in CEFMS for the Fund Balance With Treasury and Unexpended Appropriations accounts. The limitations in the reliability of funding recorded in CEFMS contributed to the disclaimer of opinion on the September 30, 2003, USACE

Civil Works financial statements because USACE was unable to provide sufficient audit-ready evidence for the auditors to complete the audit (finding A).

USACE erroneously reported \$100.2 million of unprocessed interagency transfer collections (that is, USACE reported collections that had not yet occurred) to the Treasury and the Office of Management and Budget as of September 30, 2003. In addition, the USACE revolving fund created \$318.6 million of unreconciled collection and disbursement differences. As a result, USACE did not report reliable Fund Balance With Treasury amounts to the Treasury and the Office of Management and Budget. The reliability of reported collection and disbursement amounts for the revolving fund contributed to the disclaimer of opinion on the September 30, 2003, USACE, Civil Works, financial statements (finding B).

Management Comments and Audit Response. Comments from the Under Secretary of Defense (Comptroller)/Chief Financial Officer were received too late to be considered in preparing the final report. Therefore, if the Under Secretary of Defense (Comptroller)/Chief Financial Officer does not submit additional comments by January 28, 2005, we will consider the comments received as the response to the final report. The comments provided by the Commander, U.S. Army Corps of Engineers on Recommendations A.1.a., A.1.b., and A.1.c., were partially responsive. Therefore, we request additional comments on the final report by January 28, 2005. The Commander concurred with Recommendations A.1. and B. See the Finding sections of the report for a discussion of management comments and the Management Comments section of the report for the complete text of the comments.

Table of Contents

Executive Summary	i
Background	1
Objectives	3
Findings	
A. Reliability of Fund Balance With Treasury Funding Recorded in the U.S. Army Corps of Engineers Financial Management System	4
B. Reliability of Fund Balance With Treasury Collection and Disbursement Amounts Reported to Treasury and the Office of Management and Budget	15
Appendixes	
A. Scope and Methodology	22
B. Prior Coverage	24
C. U.S. Army Corps of Engineers Accounting and Reporting for Continuing Resolution Authority	26
D. Accounting Standards and Criteria for Fund Balance With Treasury and Unexpended Appropriations	28
E. Treasury Reports for Fund Balance With Treasury	30
F. Glossary	32
G. U.S. Army Corps of Engineers Subsidiary Accounts for Fund Balance With Treasury	35
H. Accounting Entries to Record Funding	37
I. FY 2003 Transactions Applicable to Expenditure and Receipt Accounts Excluded from CEFMS and CEEMIS	38
J. DoD Disbursing Stations, Finance Centers, and the DoD Reporting Process for Collections and Disbursements	39
K. Procedures and Requirements for Interagency Transfers	41
L. Report Distribution	45
Management Comments	
U.S. Army Corps of Engineers	47

Background

We performed this project in support of Public Law 101-576, the “Chief Financial Officers Act of 1990,” November 15, 1990, as amended by Public Law 103-356, the “Federal Financial Management Act of 1994,” October 13, 1994. As part of the strategy to implement those laws, the Office of Management and Budget further requires certain DoD entities, including the U.S. Army Corps of Engineers (USACE), Civil Works, to prepare audited financial statements.

When the Office of the Inspector General of the Department of Defense (OIG DoD) published the, “Independent Auditor’s Report on the U.S. Army Corps of Engineers, Civil Works, Fiscal Year 2003 Principal Financial Statements,” (Report No. D-2004-032), December 3, 2003, we did not report on Fund Balance With Treasury or Unexpended Appropriations – Cumulative (Unexpended Appropriations).¹ We stated that USACE was unable to provide sufficient audit-ready evidential material for the auditors to complete the audit. Therefore, we agreed to complete the unfinished audit work using agreed-upon procedures.

USACE and OIG DoD established a memorandum of agreement, “Agreed-Upon Procedures to Establish Beginning Balances for the Audit of the Principal U.S. Army Corps of Engineers, Civil Works, Financial Statements for the Fiscal Years Ending September 30, 2004 and 2003,” November 20, 2003. The memorandum of agreement discussed procedures needed to verify the material line items and related accounts on the FY 2003 Balance Sheet.

We performed the procedures to assist USACE in its efforts to establish the beginning FY 2004 Fund Balance With Treasury and Unexpended Appropriations balances for the Principal USACE, Civil Works, financial statements for the fiscal years ending September 30, 2004 and 2003. The beginning balances for the FY 2004 financial statements represent the FY 2003 ending balances. The FY 2003 USACE, Civil Works financial statements reported:

- total assets of \$38.4 billion, including \$2.6 billion in the Fund Balance With Treasury account and
- total liabilities and net position of \$38.4 billion, including \$0.6 billion in the Unexpended Appropriations account.

Neither account represented a majority of USACE total assets or total liabilities and net position. However, many Balance Sheet accounts are affected by entries initially made to the Fund Balance With Treasury account.

We also followed up on USACE progress on OIG DoD suggestions to improve business processes and internal controls for Fund Balance With Treasury reported in the OIG DoD FY 2002 Fund Balance With Treasury Cycle Memorandum for USACE, Civil Works, November 13, 2003. However, the agreed-upon procedures used in attestation engagement alone are not sufficient for USACE to establish beginning balances for Fund Balance With Treasury and Unexpended Appropriations. A full financial audit will better address the reliability of

¹ See Appendix D for a discussion on the accounting standards and criteria for Fund Balance With Treasury and Unexpended Appropriations.

recorded collections and disbursements, the USACE Financial Management System (CEFMS), and the USACE Enterprise Management Information System (CEEMIS).²

The Fund Balance With Treasury and Unexpended Appropriations accounts are the responsibility of the USACE. In addition, the sufficiency of the agreed-upon procedures to meet USACE objectives is solely the responsibility of USACE. Therefore, we disclaim responsibility for the sufficiency of those procedures. We were not engaged to perform, and did not perform, an examination of the subject matter, the objective of which would be the expression of an opinion or a disclaimer of opinion. Therefore, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported.³

Treasury Accounts. Article I, Section 9, of the Constitution of the United States of America, states that “a regular Statement and Account of the Receipts and Expenditures of all public Money shall be published from time to time.” DoD Regulation 7000.14-R, the “DoD Financial Management Regulation,” volume 1, chapter 8, appendix B, “Hierarch of Accounting Standards,” May 1998, recognizes that the Department of Treasury (Treasury) publishes the Treasury Financial Manual. The Federal Account Symbols and Titles Book, a supplement to the Treasury Financial Manual, includes a listing of all assigned account symbols, account titles, and fund groups. In those publications, Treasury classifies accounts as either receipt accounts or expenditure accounts. Each receipt account and expenditure account has a trial balance of proprietary accounts including Fund Balance With Treasury.

Treasury Reports for Fund Balance With Treasury. Treasury prepares five Fund Balance With Treasury reports including three for receipt accounts and two for expenditure accounts. As of September 30, 2003, Treasury reports for Fund Balance With Treasury accounted for 47 USACE accounts with FY 2003 activity or balances. The 47 accounts included 13 receipt accounts and 34 expenditure accounts. See Appendix E for a discussion of the Treasury reports for Fund Balance With Treasury. See Appendix F for a glossary of Fund Balance With Treasury terminology.

Fund Balance With Treasury Process. Reconciling Fund Balance With Treasury accounts, including the reconciliation of differences, are a key internal control process. Reconciliation ensures the reliability of the Government’s receipt and disbursement data reported by agencies. Therefore, all Government agencies must perform timely reconciliations and implement effective and efficient reconciliation processes. Unresolved differences compromise the reliability of Fund Balance With Treasury account balances, the Treasury’s published financial reports, and the overall status and integrity of the Government’s financial position. As of December 31, 2003, the DoD reported

² CEFMS maintains trial balances by district for each of the 61 USACE districts. CEEMIS consolidates the 61 trial balances into 1 trial balance for each receipt account or expenditure account. We obtained the CEFMS trial balance for each receipt account and expenditure account from CEEMIS. References to CEFMS refer to CEFMS balances obtained through CEEMIS.

³ Statements required by the American Institute of Certified Public Accountants, Statements on Standards for Attestation Engagements.

\$1.5 trillion in total assets, including \$593.8 billion in its Fund Balance With Treasury accounts.

Objectives

Our overall audit objective was to conduct agreed-upon procedures to assist the USACE in its efforts to establish beginning FY 2004 Fund Balance With Treasury and Unexpended Appropriations balances for the Principal USACE, Civil Works, financial statements for the fiscal years ending September 30, 2004 and 2003. We were not engaged to perform, and did not perform, an examination of the subject matter, the objective of which would be the expression of an opinion or a disclaimer of opinion. Therefore, we do not express such an opinion. See Appendix A for a discussion of the scope and methodology. See Appendix B for prior coverage related to the objectives. See Appendix C for a discussion regarding the USACE accounting and reporting for continuing resolution authority, an element of Fund Balance With Treasury funding not covered in finding A.

A. Reliability of Fund Balance With Treasury Funding Recorded in the U.S. Army Corps of Engineers Financial Management System

USACE did not comply with generally accepted accounting principles. Specifically, USACE recorded \$361.8 million of noncompliant funding in CEFMS for the Fund Balance With Treasury and Unexpended Appropriations accounts. Furthermore, USACE did not establish Fund Balance With Treasury accounts in CEFMS for 7 of 47 expenditure and receipt accounts required by the United States Code and assigned by Treasury, and omitted \$1.3 billion (absolute value) of transactions applicable to the accounts. Finally, USACE commingled appropriation warrants and nonexpenditure transfers in the CEFMS subsidiary accounts for Fund Balance With Treasury.

CEFMS contained noncompliant transactions because of CEFMS limitations. Further, Fund Balance With Treasury accounts were omitted from CEFMS because USACE did not develop a complete set of standard operating procedures for the Fund Balance With Treasury account. USACE commingled transactions because the DoD Regulation 7000.14-R, the “DoD Financial Management Regulation,” (DoD FMR) did not require separate subsidiary accounts for Fund Balance With Treasury to facilitate reconciliation with amounts reported separately on Treasury reports.

As a result, USACE did not maintain reliable funding information in CEFMS for the Fund Balance With Treasury and Unexpended Appropriations accounts. The limitations in the reliability of funding recorded in CEFMS contributed to the disclaimer of opinion on the September 30, 2003, USACE Civil Works financial statements because USACE was unable to provide sufficient audit-ready evidence for the auditors to complete the audit.

General Ledger Accounts and Funding Types

General Ledger Accounts. The Treasury Financial Manual, volume 1, supplement, “U.S. Standard General Ledger,” June 2003, establishes standard general ledger accounts for proprietary and budgetary accounts. The proprietary accounts include account 1010, “Fund Balance With Treasury,” and account 3100, “Unexpended Appropriations – Cumulative.” See Appendix G for a discussion of USACE subsidiary accounts for Fund Balance With Treasury.

Funding Type. The FMR identifies the accounting entries required to record funding in the Fund Balance With Treasury account. See Appendix H for a discussion of the accounting entries required to record funding. Treasury issues appropriation warrants and makes nonexpenditure transfers to provide agencies with funding. The Treasury issues appropriation warrants to establish the individual amounts appropriated by Congress directly in agency expenditure

accounts and to transfer funds from some unavailable receipt accounts to expenditure accounts. Funds in expenditure accounts are available for obligation during a specific period, referred to as the period of availability, and for liquidating those obligations for 5 additional fiscal years. The Treasury transfers funds between expenditure accounts through nonexpenditure transfers (transferred by either hardcopy SF [Standard Form] 1151, “Nonexpenditure Transfer Authorization,” or electronically through the Government-wide accounting system). The appropriation warrants include:

- hardcopy appropriation warrants (FMS [Financial Management Service] 6200, “Department of the Treasury Appropriation Warrant”),
- invisible warrant funding⁴ used to electronically transfer funds from available receipt accounts to expenditure accounts, and
- drawdowns used to remove funds from expenditure accounts.

Compliance With Generally Accepted Accounting Principles

USACE did not maintain reliable funding information in CEFMS for the Fund Balance With Treasury and Unexpended Appropriations accounts. USACE did not comply with generally accepted accounting principles by recording \$361.8 million of noncompliant funding transactions in CEFMS for the Fund Balance With Treasury and Unexpended Appropriations accounts. The transactions, called “Work Allowances” by USACE, reflect contract authority provided by the USACE headquarters to USACE districts to begin making obligations before Treasury provides funding. Although contract authority is a legitimate form of budget authority, the Treasury does not record funding based on contract authority in the Treasury reports for Fund Balance With Treasury.

The entries made by USACE to the Fund Balance With Treasury account for contract authority do not comply with generally accepted accounting principles established in Statement of Federal Financial Accounting Standards No. 1, “Accounting for Selected Assets and Liabilities,” March 30, 1993, because the transactions reflect contract authority, not funding. Standard No. 1 does not allow agencies to record contract authority as part of Fund Balance With Treasury. Paragraph 34 states:

An entity’s fund balance with Treasury does not include contract authority or unused authority to borrow. Contract authority is statutory authority under which contract or other obligations can be entered into prior to receiving an appropriation for the payment of obligations . . .

⁴ Volume 1, part 2, chapter 1500, “Description of Accounts Relating to Financial Operations,” April 5, 2001, of the Treasury Financial Manual states that available special fund or trust fund receipts are immediately available in their entirety as appropriations to a single agency for expenditure without further congressional action. Treasury standard general ledger policy, “Unavailable Special Fund Receipt Accounts,” February 24, 1999, states that “an available special fund receipt account has legal authority to obligate and expend its balances immediately without further action by Congress. The Treasury Central Accounting System, STAR, will automatically (invisible warrant) transfer the balance from the available special fund receipt account into the special fund expenditure account with the same main account symbol. This will be reflected on the agency FMS Form 6655 Receipt Account Ledger and FMS Form 6653 Undisbursed Appropriation Account Ledger.”

Further, section 1004, “Financial Reporting: Checklist for Reports Prepared Under the CFO Act Checklist,” of the General Accounting Office/President’s Council on Integrity and Efficiency Financial Audit Manual, July 2001, includes a checklist to assist agencies in preparing financial statements and assist auditors in auditing the statements. The checklist is intended to help provide for a systematic, organized, and structured approach to preparing or reviewing agency financial statements. For Fund Balance With Treasury, the checklist contains a question on whether the entity’s Fund Balance With Treasury excludes contract authority or unused authority to borrow.

USACE officials stated that contract authority was recorded in the Fund Balance With Treasury and Unexpended Appropriations accounts because of CEFMS limitations that require a sufficient Fund Balance With Treasury to fund an obligation before the obligation can be established in the budgetary accounts. CEFMS required a sufficient Fund Balance With Treasury even when the budgetary accounts included sufficient contract authority to cover the obligation.

During the preparation of the FY 2003 USACE Financial Statements, USACE made \$361.8 million of Fund Balance With Treasury adjustments to remove noncompliant transactions from the financial statements. The adjustments removed contract authority from the Fund Balance With Treasury accounts maintained in CEFMS for four expenditure accounts.⁵ However, the adjustments contributed to the disclaimer of opinion on the September 30, 2003, USACE Civil Works, financial statements.

Expenditure Accounts and Receipt Accounts Required by the United States Code and Assigned by Treasury

USACE did not establish Fund Balance With Treasury accounts in CEFMS for 7 of 47 expenditure and receipt accounts required by the United States Code and assigned by Treasury. USACE did not establish or maintain Fund Balance With Treasury accounts in CEFMS, and consequently in CEEMIS, for:

- expenditure accounts
 - 96033129, “Payment to the South Dakota Terrestrial Wildlife Habitat Restoration Trust Fund (fiscal year),”
 - 96X5007, “Special Recreation Use Fees, Corps of Engineers, Civil,”
 - 96X8217, “South Dakota Terrestrial Wildlife Habitat Restoration Trust Fund,” and
 - 9620X8863, “Harbor Maintenance Trust Fund,” and

⁵ The four expenditure accounts are account 96X8333, “Coastal Wetlands Restoration Trust Fund,” account 9620X8861, “Inland Waterways Trust Fund,” account 9689X4045, “Bonneville Power Administration Fund, Power Marketing Administrations, Department of Energy,” and account 9669X8083, “Federal-Aid Highways (Liquidation of Contract Authorization), Federal Highway Administration.”

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- receipt accounts
 - 965125, “Licenses Under Federal Power Act, Improvements of Navigable Waters, Maintenance and Operation of Dams,”
 - 968217.001, “Payment from General Fund, South Dakota Terrestrial Wildlife Habitat Restoration Trust Fund,” and
 - 968217.002, “Earnings on Investments, South Dakota Terrestrial Wildlife Habitat Restoration Trust Fund.”

The accounts were omitted from the systems because USACE did not develop a complete set of standard operating procedures for Fund Balance With Treasury. Specifically, USACE did not develop a procedure to require accountants to compare the Fund Balance With Treasury accounts for each expenditure and receipt account reported on the monthly Treasury reports for Fund Balance With Treasury with the Fund Balance With Treasury accounts established in CEFMS and CEEMIS. The procedure would ensure that USACE establishes and maintains all expenditure and receipt accounts in both CEFMS and CEEMIS.

As a result, USACE omitted a total \$1.3 billion (absolute value) of FY 2003 transactions from CEFMS, as follows.

- For expenditure accounts, USACE omitted \$1.3 billion in FY 2003 transactions, including beginning balances (\$0.8 thousand), appropriation warrants (\$60.4 million), nonexpenditure transfers (\$619.3 million), and net disbursements (\$578.9 million).
- For receipt accounts, USACE omitted \$17.8 million in FY 2003 transactions for collections as shown in Appendix I.

Subsidiary Accounts Used for Appropriation Warrants and Nonexpenditure Transfers

USACE commingled appropriation warrants and nonexpenditure transfers in the CEFMS subsidiary accounts for Fund Balance With Treasury, including funds collected, funds disbursed, and beginning Fund Balance With Treasury. The Treasury reports for Fund Balance With Treasury have separate lines to report appropriation warrants and nonexpenditure transfers. However, USACE did not establish and maintain separate subsidiary accounts in CEFMS for USACE appropriation warrants and nonexpenditure transfers to facilitate reconciliation with the Treasury reports for Fund Balance With Treasury or to systematically reconcile the Treasury reports with corresponding CEFMS amounts. Consequently, we reconciled USACE appropriation warrants (hardcopy appropriation warrants, invisible warrant funding, and drawdowns) and nonexpenditure transfers reported on the Treasury reports for Fund Balance With Treasury with the Fund Balance With Treasury subsidiary accounts in CEFMS. The reconciliation showed the following.

- **Funds Collected.** CEFMS account 1010.11, “Funds Collected,” and account 1010.14, “Funds Collected-Advances Received,” also included drawdowns.

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- **Funds Disbursed.** CEFMS account 1010.21, “Funds Disbursed,” also included nonexpenditure transfers.
 - **Beginning Fund Balance With Treasury.** CEFMS account 1010.31, “Funds With Treasury,”⁶ account 1010.34, “Fund Balance With Treasury – Advances Received,” account 1010.41, “Undistributed Collections,” account 1010.51, “Undistributed Disbursements,” also included hardcopy warrants, invisible warrant funding, drawdowns, and nonexpenditure transfers.

For example, during FY 2002, USACE commingled the beginning Fund Balance With Treasury, appropriation warrants, and nonexpenditure transfers applicable to expenditure account 96X3123, “Operation and Maintenance, General, Corps of Engineers, Civil,” in USACE subsidiary account 1010.31, “Funds With Treasury,” established for expenditure account 96X3123. USACE did not commingle amounts applicable to expenditure account 96X3123 with amounts applicable to other USACE expenditure accounts. The commingling of transaction types within CEFMS precluded USACE and auditors from reconciling, in a timely manner, the appropriation warrants and nonexpenditure transfers recorded in CEFMS with the corresponding amounts reported on the Treasury reports for Fund Balance With Treasury or with source documents.

USACE commingled appropriation warrants and nonexpenditure transfers in the Fund Balance With Treasury subsidiary accounts. This occurred because the FMR requires agencies to use a single account, account 1013, “Funds With Treasury,” to record beginning Fund Balance With Treasury, appropriation warrants, and nonexpenditure transfers for each expenditure account.

The FMR did not require separate subsidiary accounts for Fund Balance With Treasury to facilitate reconciliation with amounts reported separately on Treasury reports for Fund Balance With Treasury. Specifically, the DoD FMR did not require separate Fund Balance With Treasury subsidiary accounts for:

- appropriation warrants, including FMS 6200, “Department of the Treasury Appropriation Warrant,” invisible warrant funding, and drawdowns,
- hardcopy SF 1151, “Nonexpenditure Transfer Authorization,” and electronic nonexpenditure transfers made through the Government-wide accounting system, and
- beginning fiscal year Fund Balance With Treasury.

Subsequently, in a memorandum, the Under Secretary of Defense (Comptroller)/Chief Financial Officer established a requirement for the Defense Finance and Accounting service (DFAS) to reconcile collection and disbursement amounts reported in the Department’s Fund Balance With Treasury accounts maintained for each expenditure account by each DFAS Center. However, the

⁶ DoD Regulation 7000.14-R, the “DoD Financial Management Regulation,” volume 4, chapter 2, “Accounting for Cash and Fund Balances With Treasury,” January 1995, requires agencies to close out Funds Collected and Funds Disbursed into Funds With Treasury at fiscal year-end. Therefore, Funds With Treasury represents the beginning Fund Balance With Treasury for the next fiscal year.

Comptroller did not require DFAS to separately reconcile appropriation warrants and nonexpenditure transfers reported in the proprietary accounts with the corresponding amounts reported separately in the Treasury reports for Fund Balance With Treasury. Also, the requirement did not specifically apply to USACE because DFAS does not perform the accounting for USACE.

Progress by USACE

On May 3, 2004, the USACE finance center provided 13 standard operating procedures (7 revised procedures, 6 new procedures) relating to Fund Balance With Treasury. USACE provided the procedures in response to informal suggestions included in the OIG DoD FY 2002 Fund Balance With Treasury Cycle Memorandum for USACE, Civil Works, November 13, 2003, (cycle memorandums are not formally published for public distribution). We included the suggestions in the memorandum to expedite USACE improvements to internal controls and the availability of audit-ready evidential material, and to eliminate Fund Balance With Treasury impediments to an unqualified audit opinion.

Just prior to receiving the procedures, we distributed a discussion draft of this report. The report updates the data and refines the suggestions included in the cycle memorandum, and includes formal recommendations. As a result, the recently issued USACE procedures do not specifically address the report recommendations. However, USACE plans to update the procedures to incorporate the recommendations in this report.

The following procedure attributes would have a continuing benefit to accountants and auditors:

- number and issue date of superseded procedures,
- issue date and effective date for revised or new procedures,
- summary of procedural changes, and
- point of contact and phone number.

In addition, the procedures, accompanied by an overall table of contents, should be posted to a website to facilitate the availability of the information.

Conclusions

USACE needs to improve the reliability of the funding information recorded in the Fund Balance With Treasury and Unexpended Appropriations accounts. The limitations in the reliability of funding recorded in CEFMS contributed to the disclaimer of opinion on the September 30, 2003, USACE Civil Works, financial statements.

USACE needs to develop a complete set of standard operating procedures to establish a systematic process for reconciling the account. A systematic process, consistently applied from period to period, will facilitate an economical and sustainable audit effort by reducing the time, effort, and annual cost required for

an audit. The process will also assist in meeting accelerated reporting requirements⁷ and reduce the risk of material misstatement.

The process should ensure that USACE routinely establishes Fund Balance With Treasury accounts within its accounting system for all USACE expenditure and receipt accounts and takes full advantage of Treasury reports for Fund Balance With Treasury. The reports include separate lines for beginning Fund Balance With Treasury, appropriation warrants, and nonexpenditure transfers, and were designed to facilitate reconciling those elements of the account with agency records. USACE should make appropriate systems changes to accommodate the reconciliation requirements.

The Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer should revise the FMR to include subsidiary accounts for appropriation warrants, nonexpenditure transfers, and beginning Fund Balance With Treasury to facilitate reconciliation with Treasury reports for Fund Balance With Treasury, which reported significant dollar amounts of funding activity.⁸ The revision should be coordinated with DoD efforts regarding business system modernization and Business Enterprise Architecture. The subsidiary accounts will simplify the reconciliation of Fund Balance With Treasury and assist the Department in achieving its goal of obtaining a favorable opinion on the DoD agency-wide financial statements. In addition, the improvements will assist the Department in routinely providing decision-makers with timely, accurate, and useful Fund Balance With Treasury information. As reported by the Government Accountability Office (GAO),⁹ providing such information is one of the measures established by the Joint Financial Management Improvement Program for achieving financial management success.

⁷ The Office of Management and Budget accelerated its Performance and Accountability Report deadline from January 30, 2004, for the FY 2003 report to November 15, 2004, for the FY 2004 report.

⁸ The September 30, 2003, Treasury reports for Fund Balance With Treasury reported \$212.2 billion for beginning fiscal year Fund Balance With Treasury, \$559.1 billion for current year appropriations, and \$21.1 billion for nonexpenditure transfers applicable to the Office of the Secretary of Defense, Army, Navy, Air Force, and USACE.

⁹ Report No. GAO-04-551T, "Department of Defense: Further Actions Needed to Establish and Implement a Framework for Successful Financial and Business Management Transformation," March 23, 2004.

Recommendations, Management Comments, and Audit Response

A.1. We recommend that the Commander, U. S. Army Corps of Engineers:

a. Revise accounting practices for expenditure account 96X8333, account 9620X8861, account 9689X4045, and account 9669X8083 to comply with generally accepted accounting principles and exclude contract authority from the Fund Balance With Treasury account, as required by Statement of Federal Financial Accounting Standards No. 1, "Accounting for Selected Assets and Liabilities," paragraph 34, March 30, 1993.

Management Comments. The Commander, U.S. Army Corps of Engineers concurred. A CEFMS problem report will be developed by December 31, 2004, to satisfy the requirements of Statement of Federal Financial Accounting Standards (SFFAS) No 1, paragraph 34. The USACE Finance Center Directorate of Financial Systems will provide an estimated timeframe to accomplish the system change. USACE is presently making a journal voucher, which is adjusting the financial statements to reduce the work allowance/contract authority from the Fund Balance with Treasury account. This step will ensure that the financial statements are reasonably and fairly presented.

Audit Response. The Commander, U.S. Army Corps of Engineers comments are partially responsive. We request that the Commander, U.S. Army Corps of Engineers provide a specific timeframe to accomplish the system change in response to the final report.

b. Modify the U.S. Army Corps of Engineers Financial Management System to comply with generally accepted accounting principles and exclude contract authority from the Fund Balance With Treasury account, as required by Statement of Federal Financial Accounting Standards No. 1, "Accounting for Selected Assets and Liabilities," paragraph 34, March 30, 1993. Specifically, modify the system to allow valid obligations to be recorded for trust fund accounts, with sufficient contract authority to cover the obligation, without regard to the balance in the Fund Balance With Treasury account.

Management Comments. The Commander, U.S. Army Corps of Engineers concurred. As stated in the response to Recommendation A.1.a., a CEFMS problem report will be developed by December 31, 2004, to satisfy the requirements of SFFAS No 1, paragraph 34. The Finance Center Directorate of Financial Systems will provide an estimated timeframe to accomplish the system change. Presently, CEFMS will not allow for an obligation to be processed without proper authority.

Audit Response. The Commander, U.S. Army Corps of Engineers comments are partially responsive. We request that the Commander, U.S. Army Corps of Engineers provide a specific timeframe to accomplish the system change in response to the final report.

c. Establish and maintain U.S. Standard General Ledger account 1010, "Fund Balance With Treasury," in the U.S. Army Corps of

Engineers Financial Management System and the U.S. Army Corps of Engineers Enterprise Management Information System to facilitate reconciliation with Treasury reports for Fund Balance With Treasury. Specifically, establish Fund Balance With Treasury accounts for:

(1) Expenditure account 96033129, “Payment to the South Dakota Terrestrial Wildlife Habitat Restoration Trust Fund (fiscal year),” account 96X5007, “Special Recreation Use Fees, Corps of Engineers, Civil,” account 96X8217, “South Dakota Terrestrial Wildlife Habitat Restoration Trust Fund,” and account 9620X8863, “Harbor Maintenance Trust Fund.”

(2) Receipt account 965125, “Licenses Under Federal Power Act, Improvements of Navigable Waters, Maintenance and Operation of Dams,” account 968217.001, “Payment from General Fund, South Dakota Terrestrial Wildlife Habitat Restoration Trust Fund,” and account 968217.002, “Earnings on Investments, South Dakota Terrestrial Wildlife Habitat Restoration Trust Fund.”

Management Comments. The Commander, U.S. Army Corps of Engineers concurred. USACE will establish procedures to record the Treasury warrant and the payment from the expenditure account and collection to the South Dakota Terrestrial Wildlife Habitat Restoration Trust Fund in the CEFMS database (accounts 96033129 and 96X8217.001). In addition, USACE will investigate a possible method of recording in CEFMS the following appropriations Special Recreation Use Fees-96X5007, Harbor Maintenance Trust Fund-96 20X8863, Licenses Under Federal Power Act-96X5125, and South Dakota Trust fund-96X8217.002. The USACE Finance Center will coordinate with Headquarters Budget on issuing a funding authorization document, and a subsequent revocation will be recorded in the CEFMS database for 96X5007.

Audit Response. The Commander, U.S. Army Corps of Engineers comments are partially responsive. We request that the Commander, U.S. Army Corps of Engineers provide a specific timeframe for accomplishing these actions in the response to the final report.

d. Establish and maintain separate Fund Balance With Treasury subsidiary accounts in the U.S. Army Corps of Engineers Financial Management System and the U.S. Army Corps of Engineers Enterprise Management Information System to facilitate reconciliation with Treasury reports for Fund Balance With Treasury. Specifically, establish separate Fund Balance With Treasury subsidiary accounts for:

(1) Appropriation warrants including (a) FMS 6200, “Department of the Treasury Appropriation Warrant,” (b) invisible warrant funding, and (c) drawdowns.

(2) SF 1151, “Nonexpenditure Transfer Authorization,” and electronic nonexpenditure transfers made through the Government-wide accounting system.

(3) Beginning fiscal year Fund Balance With Treasury.

Management Comments. The Commander, U.S. Army Corps of Engineers concurred. The USACE will coordinate with the Office of the Secretary of

Defense (Comptroller) (OSD[C]) on their guidance for establishing fund type-specific general ledger attributes, and CEFMS will be modified to be in compliance with the OSD(C) guidance.

e. Develop a comprehensive standard operating procedure for Fund Balance With Treasury that requires accountants to:

(1) Compare the Fund Balance With Treasury accounts for each expenditure and receipt account reported on the monthly Treasury reports for Fund Balance With Treasury with the Fund Balance With Treasury accounts established in the U.S. Army Corps of Engineers Financial Management System and the U.S. Army Corps of Engineers Enterprise Management Information System to ensure the recording of all accounts in both systems.

Management Comments. The Commander, U.S. Army Corps of Engineers concurred. USACE is performing reconciliation of Fund Balance with Treasury expenditure and receipt accounts to Treasury.

(2) Reconcile applicable Fund Balance With Treasury subsidiary accounts shown in the U.S. Army Corps of Engineers Financial Management System and the U.S. Army Corps of Engineers Enterprise Management Information System for each expenditure and receipt account with amounts reported on monthly Treasury reports for Fund Balance With Treasury.

Management Comments. The Commander, U.S. Army Corps of Engineers concurred. Reconciliation is performed at the summary account (1010) United States Standard General Ledger level. On December 15, 2004, USACE requested OSD(C) guidance for establishing fund type-specific general ledger attributes, and CEFMS will be modified to be in compliance with the OSD(C) guidance.

f. Revise the USACE procedures to include:

(1) An overall table of contents, to a website to facilitate the availability of the information.

(2) Number and issue date of superseded procedures.

(3) Issue date and effective date for revised or new procedures.

(4) Summary of procedural changes.

(5) Point of contact and phone number.

Management Comments. The Commander, U.S. Army Corps of Engineers concurred. USACE Finance Center will establish a link on the public website to the U.S. Army Corps of Engineer Finance Center Standard Operating Procedures (SOPs). This will be completed by February 28, 2005.

A.2. We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer:

a. Modify plans for the business system modernization and Business Enterprise Architecture to establish separate Fund Balance With Treasury subsidiary accounts for:

(1) Appropriation warrants, including FMS 6200, “Department of the Treasury Appropriation Warrant,” invisible warrant funding, and drawdowns.

(2) SF 1151, “Nonexpenditure Transfer Authorization,” and electronic nonexpenditure transfers made through the Government-wide accounting system.

(3) Beginning fiscal year Fund Balance With Treasury.

b. Revise DoD Regulation 7000.14-R, the “DoD Financial Management Regulation,” volume 4, “Accounting Policy and Procedures,” October 21, 2003, in coordination with the business system modernization and Business Enterprise Architecture efforts, to:

(1) Establish separate Fund Balance With Treasury subsidiary accounts for:

(a) Appropriation warrants, including FMS 6200, “Department of the Treasury Appropriation Warrant,” invisible warrant funding, and drawdowns.

(b) SF 1151, “Nonexpenditure Transfer Authorization,” and electronic nonexpenditure transfers made through the Government-wide accounting system.

(c) Beginning fiscal year Fund Balance With Treasury.

(2) Require finance centers to reconcile applicable Fund Balance With Treasury subsidiary accounts shown in the reporting entity’s general ledger system for each expenditure and receipt account with applicable amounts reported on monthly Treasury reports for Fund Balance With Treasury.

Management Comments. Comments on the draft report were received from the Under Secretary of Defense (Comptroller)/Chief Financial Officer too late to be incorporated into the final report. Therefore, if the Under Secretary of Defense (Comptroller)/Chief Financial Officer does not submit additional comments, we will consider those comments as the management response to the final report.

B. Reliability of Fund Balance With Treasury Collection and Disbursement Amounts Reported to Treasury and the Office of Management and Budget

USACE erroneously reported \$100.2 million of unprocessed interagency transfer collections (that is, USACE reported collections that had not yet occurred) to the Treasury and the Office of Management and Budget as of September 30, 2003. In addition, the USACE revolving fund created \$318.6 million of unreconciled collection and disbursement differences. These conditions occurred because USACE did not:

- establish cut-off procedures for the interagency transfer reporting,
- ensure procedures included guidance for reconciling and resolving interagency transfer differences, and
- establish revolving fund procedures to facilitate reconciliation with Treasury reports for Fund Balance With Treasury

As a result, USACE did not report reliable Fund Balance With Treasury amounts to the Treasury and the Office of Management and Budget. The reliability of reported collection and disbursement amounts for the revolving fund contributed to the disclaimer of opinion on the September 30, 2003, USACE, Civil Works, financial statements.

Collections and Disbursements

DoD disbursing stations make collections and disbursements through interagency transfers, U.S. Treasury checks, and deposits. Disbursing stations are accountable to the Treasury for their collections and disbursements. All DoD disbursing stations, except USACE disbursing stations, report collections and disbursements to Treasury through their respective DFAS center. USACE disbursing stations report collections and disbursements directly to Treasury through the USACE finance center, Millington, Tennessee. See Appendix J for a discussion of DoD disbursing stations and finance centers and the DoD reporting process for collections and disbursements.

Treasury and DoD have already established procedures and requirements for processing interagency transfers, reporting interagency transfers, and reconciling interagency transfer differences. DoD disbursing stations making interagency transfers should implement the Treasury and DoD procedures to strengthen the control environment at the station level. See Appendix K for a discussion of the procedures and requirements for interagency transfers.

Reporting Interagency Transfers

Treasury Reporting. USACE erroneously reported \$100.2 million of unprocessed interagency transfer collections to Treasury as Fund Balance With Treasury on the September 30, 2003, Statement of Accountability and Statement of Transactions. USACE identified expenditure accounts (10 accounts) for \$83.9 million of the \$100.2 million of unprocessed interagency transfer collections. USACE was unable to reconcile the remaining \$16.3 million of unprocessed interagency transfer collections or identify the applicable expenditure accounts.

USACE erroneously included interagency transfer collections on the September 2003 Statement of Accountability and Statement of Transactions that the Treasury processed in October 2003 after the September 25, 2003, monthly cutoff. USACE corrected the \$100.2 million error on the October 2003 Statement of Accountability and Statement of Transactions.¹⁰ However, the September 30, 2003, Treasury reports for Fund Balance With Treasury included the erroneous interagency transfer collections but not the correction.

USACE erroneously reported Fund Balance With Treasury information to Treasury because USACE did not establish cut-off procedures for interagency transfers to comply with monthly cut-off dates established in trading partner agreements for interagency transfers. In addition, the USACE Desk Operating Procedure, SOP No. 14, "SF 1220 & SF 1219 Statements of Accountability," March 6, 2000, did not include procedures for reporting interagency transfers shown in the Intra-governmental Payment and Collection system to Treasury on the Statement of Accountability and Statement of Transactions.

Financial Statement Reporting. The USACE erroneously reported \$100.2 million of unprocessed interagency transfer collections to the Office of Management and Budget as Fund Balance With Treasury on the September 30, 2003, USACE Balance Sheet.

The USACE erroneously reported Fund Balance With Treasury on the Balance Sheet because USACE did not establish a complete set of standard operating procedures, as discussed in finding A, for reconciling and resolving interagency transfer differences reported on the Treasury Statements of Differences and for making applicable adjustments to the financial statements. Therefore, USACE did not reconcile the \$100.2 million of interagency transfer differences reported on the September 30, 2003, Treasury Statements of Differences and document the effect of the differences on the:

- Fund Balance With Treasury amounts reported on the September 30, 2003, Treasury reports on Fund Balance With Treasury and
- Fund Balance With Treasury amounts reported on the September 30, 2003, U.S. Army Corps of Engineers' financial statements.

¹⁰ The \$100.2 million USACE correction of FY 2003 interagency transfers accounted for 86.4 percent of all FY 2003 interagency transfer corrections (\$116.0 million absolute value) reported by DoD on the Statement of Accountability from October 2003 through January 2004.

Reconciliation of the interagency transfer differences reported on the September 30, 2003, Treasury Statements of Differences would have shown that the differences resulted from the unprocessed interagency transfer collections and that the September 30, 2003,

- USACE Statement of Accountability and Statement of Transactions overstated interagency transfer collections by \$100.2 million,
- Treasury reports for Fund Balance With Treasury understated FY 2003 USACE net disbursements and overstated the USACE Fund Balance With Treasury by \$100.2 million, and
- USACE Balance Sheet overstated Fund Balance With Treasury by \$100.2 million.

Based on the reconciliation, USACE should have adjusted the financial statements for the unprocessed interagency transfer collections. USACE also should have adjusted proprietary accounts including Fund Balance With Treasury, accounts receivable, and applicable budgetary accounts on the September 30, 2003, USACE, Civil Works, financial statements.

Revolving Fund Records

In addition, USACE did not maintain reliable and auditable CEFMS collection and disbursement records for the revolving fund thereby creating \$318.6 million of unreconciled differences with Treasury reports for Fund Balance With Treasury and Statements of Transactions. As of September 30, 2003, USACE had \$318.6 million of unreconciled revolving fund differences between CEFMS and Treasury reports for Fund Balance With Treasury and agencies' Statements of Transactions as shown in the table.

September 30, 2003, Unreconciled Revolving Fund Differences Between CEFMS and Treasury Reports for Fund Balance With Treasury and Statements of Transactions				
	<u>CEFMS</u>	<u>Treasury Reports/ Agencies' Statements</u>	<u>Unreconciled Difference (Absolute Value)</u>	<u>Revolving Fund Balance Overstated (Understated)</u>
October 1, 2002, <u>Balance</u>	\$ 962,026,769.89 ¹	\$ 902,533,127.04	\$ 59,493,642.85	\$ 59,493,642.85
FY 2003 <u>Collections</u>	3,788,494,125.22 ²	3,700,418,039.42	88,076,085.80	88,076,085.80
FY 2003 <u>Disbursements</u>	<u>3,783,967,530.71³</u>	<u>3,612,944,765.32</u>	<u>171,022,765.39</u>	<u>(171,022,765.39)</u>
September 30, 2003, Balance	\$ 966,553,364.40	\$ 990,006,401.14	\$318,592,494.04	(\$23,453,036.74)

The unreconciled revolving fund differences occurred because USACE did not establish revolving fund procedures to facilitate reconciliation with Treasury reports for Fund Balance With Treasury (FMS 6653, "Undisbursed Appropriation Account Ledger"), which report collections separately from disbursements, collections by collecting agency, and disbursements by disbursing agency. USACE should make full use of the Treasury reports for Fund Balance With Treasury by reconciling collections separately from disbursements, collections by collecting agency, and disbursements by disbursing agency. USACE processed a \$23.4 million adjustment for the revolving fund to correct the \$23.4 million CEFMS understatement of the revolving fund balance.

Conclusions

USACE did not report reliable Fund Balance With Treasury collection and disbursement amounts on the USACE Statement of Accountability and Statement of Transactions reports submitted to Treasury and the USACE financial statements. The limitations in the reliability of reported collection and disbursement amounts contributed to the disclaimer of opinion on the September 30, 2003, USACE financial statements.

The erroneous USACE reporting of unprocessed interagency transfers on reports to Treasury and the USACE financial statements is not isolated to September 30, 2003. USACE erroneously reported unprocessed interagency transfer collections

¹ The amount shown includes the September 30, 2003, balances for CEFMS account 1010.310 and account 1010.340. The USACE generally uses the accounts to record beginning balances. However, in this instance, during FY 2003, USACE added \$74,793,656.51 to the September 30, 2002, beginning balance of \$887,233,113.38 shown in CEFMS for Fund Balance With Treasury.

² The amount shown includes CEFMS account 1010.110 and account 1010.140. The accounts record State Department, USACE, Navy, and Air Force collections.

³ The amount shown includes CEFMS account 1010.210 and account 1010.510. The accounts record Treasury Department, State Department, Army, USACE, Navy, and Air Force disbursements.

(\$154.0 million) on the September 30, 2002, reports to Treasury and the September 30, 2002 financial statements.

In addition, the \$100.2 million overstatement of the September 30, 2003, Fund Balance With Treasury could cause misstatements of accounts receivable and the budgetary accounts (debit and credit) because of the unprocessed interagency transfers. The Fund Balance with Treasury and accounts receivable misstatements, when combined, could result in a \$200.4 million misstatement of the September 30, 2003, USACE Civil Works, financial statements. However, a \$200.4 million impact on the September 30, 2003, USACE financial statements would account for 20.3 percent of the \$987.3 million materiality threshold applicable to all five September 30, 2003, USACE Civil Works, financial statements.

Therefore, USACE should consider the Fund Balance With Treasury overstatement in aggregating errors relating to the period, as required by Statement of Federal Financial Accounting Standards No. 21, "Reporting Corrections of Errors and Changes in Accounting Principles," October 2001,¹⁴ and determine whether a material¹⁵ misstatement of the prior period or current period financial statements would occur if a correction is not made.

Further, USACE accounted for 86.4 percent of all FY 2003 interagency transfer corrections (\$116.0 million) made by DoD from October 2003 through January 2004. Improvement of the USACE business process for reporting interagency transfers to Treasury on the Statement of Accountability could significantly reduce DoD-wide interagency transfer differences. The improvements could also remove another impediment for Fund Balance With Treasury in the DoD effort to gain a favorable audit opinion on the USACE and DoD financial statements.

Reconciling revolving fund collections and disbursements by agency will facilitate reconciliation with Treasury reports for Fund Balance With Treasury and improve the quality of evidence supporting financial statement adjustments and reduce the time, effort, and annual cost required for an audit.

USACE should expand the standard operating procedures for Fund Balance With Treasury, recommended in finding A, to improve the reliability of Fund Balance With Treasury collection and disbursement amounts on the USACE Statement of Accountability and Statement of Transaction reports submitted to Treasury and the USACE financial statements. The standard operating procedure should also

¹⁴ Statement of Federal Financial Accounting Standards No. 21, "Reporting Corrections of Errors and Changes in Accounting Principles," October 2001, paragraph 5, requires that reporting entities restate prior period financial statements for material errors discovered in the current period, if such statements are provided for comparative purposes, and if the effect of the error would be material to the financial statements in either period.

¹⁵ The Government Accountability Office/President's Council on Integrity and Efficiency Financial Audit Manual, section 230, "Determine Planning, Design, and Test Materiality," states that planning materiality is applicable to the financial statements taken as a whole, and design materiality is allocated to line items. Planning materiality generally should be three percent of the materiality base, and design materiality generally should be one percent of the materiality base (total assets or expenses net of adjustments for intergovernmental balances and offsetting balances).

include procedures for making interagency transfers, reconciling and resolving interagency transfer differences, and reconciling revolving fund collections and disbursements.

Recommendations

B. We recommend that the Commander, U.S. Army Corps of Engineers develop a comprehensive standard operating procedure for Fund Balance With Treasury that:

1. Establishes cut-off procedures for interagency transfers that comply with monthly cut-off dates established in trading partner agreements for interagency transfers.

Management Comments. The Commander, U.S. Army Corps of Engineers concurred. Cut-off procedures were implemented in FY 2004 in accordance with trading partner agreements and DFAS regulation.

2. Requires USACE accountants to:

(a) Report interagency transfers on the Statement of Accountability and Statement of Transactions in compliance with fiscal year-end cut-offs established in trading partner agreements for interagency transfers.

Management Comments. The Commander, U.S. Army Corps of Engineers concurred. Interagency transfer transactions are posted to the Statement of Accountability and Statement of Transactions in CEFMS as the transactions are processed.

(b) Reconcile interagency transfer differences reported on the monthly Treasury Statements of Differences and develop a matrix (similar to the table in Appendix J) to document the effect of the differences on the:

(1) Fund Balance With Treasury amounts reported on the monthly Treasury reports on Fund Balance With Treasury.

(2) Fund Balance With Treasury amounts reported on the quarterly and year-end U.S. Army Corps of Engineers' financial statements.

Management Comments. The Commander, U.S. Army Corps of Engineers concurred. USACE Financial Center SOP 104, dated April 2004, is in place to reconcile the Statement of Differences. It will be referenced in the updated USACE Financial Center SOP 102, dated March 2004, for reconciling Fund Balance with Treasury to be completed during FY 2005.

(c) Adjust amounts to be reported on the quarterly and year-end U.S. Army Corps of Engineers' financial statements resulting from the reconciliation of the Treasury Statements of Differences when the error will cause a material misstatement if an adjustment is not made. Specifically,

USACE should adjust proprietary accounts including, Fund Balance With Treasury, accounts receivable, and applicable budgetary accounts.

Management Comments. The Commander, U.S. Army Corps of Engineers concurred. A procedure is in place to reconcile the Statement of Differences for FY 2005.

(d) Reconcile revolving fund (96X4902) collections and disbursements reported in the U.S. Army Corps of Engineers Financial Management System with the monthly Treasury reports for Fund Balance With Treasury (FMS 6653, “Undisbursed Appropriation Account Ledger”) as follows:

(1) Reconcile revolving fund collections separately from disbursements.

Management Comments. The Commander, U.S. Army Corps of Engineers concurred. Revolving Fund Cash is reconciled separately on a monthly basis.

(2) Reconcile revolving fund collections by collecting agency and revolving fund disbursements by disbursing agency.

Management Comments. The Commander, U.S. Army Corps of Engineers concurred. Current USACE Financial Center Revolving Fund Cash Reconciliation SOPs will be revised during FY 2005 to formalize the detailed and specific procedures for reconciling the Revolving Fund appropriation. A line item on the 6653 may consist of disbursements and collections, but is reported on the 6653 as a net disbursement.

Appendix A. Scope and Methodology

We performed the procedures applicable to the beginning FY 2004 Fund Balance With Treasury and Unexpended Appropriations for the Principal USACE, Civil Works, financial statements for the fiscal years ending September 30, 2004 and 2003. Specifically, we followed up on USACE progress on suggestions to improve business processes and internal controls for Fund Balance With Treasury reported in the OIG DoD FY 2002 Fund Balance With Treasury Cycle Memorandum for the USACE, Civil Works.

We reviewed actions taken by USACE to improve the reliability of funding recorded in the Fund Balance With Treasury and Unexpended Appropriations accounts. Specifically, we confirmed whether USACE FY 2003 accounting practices complied with Statement of Federal Financial Accounting Standards No. 1, "Accounting for Selected Assets and Liabilities," March 30, 1993. In addition, we verified whether USACE had established Fund Balance With Treasury accounts in its systems for all expenditure and receipt accounts required by the United States Code and implemented by Treasury. Further, we verified whether USACE had established separate subsidiary accounts for appropriation warrants and nonexpenditure transfers to facilitate reconciliation with amounts reported separately on Treasury reports for Fund Balance With Treasury.¹

In addition, we reviewed actions taken by USACE to improve the reliability of Fund Balance With Treasury collections and disbursements included in the USACE reports to Treasury and USACE financial statements. Specifically, we confirmed whether the USACE properly processed and reported interagency transfers to Treasury on the Statement of Accountability and Statement of Transactions. In addition, we verified whether USACE fully reconciled and resolved interagency transfer differences reported by Treasury on the Statement of Differences and whether the reconciliation verified the impact of interagency transfer differences on the Treasury reports for Fund Balance with Treasury and the USACE financial statements. We also verified whether the USACE maintained reliable and auditable CEFMS collection and disbursement records for the revolving fund.

Further, we confirmed with the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer whether USACE cash management practices for expenditure account 96X8333, "Coastal Wetlands Restoration Trust Fund," complied with volume 14, "Administrative Control of Funds and Antideficiency Act Violations," April 2003, of the FMR.

We performed the procedures, which we agreed to perform and with which USACE management concurred, from November 2003 through September 2004 in accordance with and the General Accounting Office/President's Council on Integrity and Efficiency Financial Audit Manual and generally accepted government auditing standards. Those standards incorporate financial audit and attestation standards established by the American Institute of Certified Public

¹ When appropriation warrants are received, agencies debit Fund Balance With Treasury and credit Unexpended Appropriations. We limited coverage of Unexpended Appropriations to appropriation warrants to preclude duplicating audit work relating to disbursements/accounts payable and collections/accounts receivable.

Accountants. We completed the agreed-upon procedures on September 15, 2004. However, we did not comply with the AICPA attestation standard 201.25, “Findings,” because we did not obtain USACE agreement with the definition of materiality used to demonstrate the consequences of internal control weaknesses discussed in the conclusion of finding B. In addition, we did not comply with the AICPA attestation standard 201.31a, “Required Elements,” because the title of the report does not include the word “independent.”

Use of Computer-Processed Data. We relied on computer-processed data from the Treasury accounting and reporting system obtained through the Government On-Line Accounting Link Information Access System II. Specifically, we relied on the September 30, 2003, Treasury reports for Fund Balance With Treasury. We relied on the Treasury reports for Fund Balance With Treasury to determine the FY 2003 universe of USACE expenditure and receipt accounts. During the previous agreed-upon procedures project applicable to the beginning FY 2003 USACE Fund Balance With Treasury and Unexpended Appropriations balances, we compared elements of Fund Balance With Treasury shown on Treasury reports for Fund Balance With Treasury to applicable source documents to determine the completeness and accuracy of information reported on the Treasury reports for Fund Balance With Treasury. The Fund Balance With Treasury elements included appropriation warrants, nonexpenditure transfers, and net disbursements. We did not find errors that would preclude use of the computer-processed data.

During that previous agreed-upon procedures project, we reconciled the appropriation warrants, nonexpenditure transfers, and net disbursements with applicable computer-processed data reported in CEFMS. We performed the reconciliation because prior Government Accountability Office and Army Audit Agency audit reports concluded that auditors could not rely on CEFMS general and application controls for transactions affecting the financial statements. We relied on the reconciliation of computer-processed CEFMS data in conducting the agreed-upon procedures applicable to the beginning FY 2004 USACE Fund Balance With Treasury and Unexpended Appropriations balances. We concluded that the computer-processed data within CEFMS was not reliable, as reported in the findings of this report. However, we used the CEFMS data to illustrate Fund Balance With Treasury policy issues in this report. The CEFMS data will not materially affect the results of our agreed-upon procedures. We did not test the general and application controls applicable to CEFMS.

In addition, we relied upon data from the Intra-governmental Payment and Collection system, a Treasury system, for our work on interagency transfer differences. We did not test the general and application controls applicable to the Intra-governmental Payment and Collection system, which produced computer-processed data for the Statement of Differences, because the system is outside the scope of this project and the OIG DoD (Treasury maintains the system.).

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

Appendix B. Prior Coverage

During the last 5 years, the Government Accountability Office (GAO), the Inspector General of the Department of Defense (IG DoD), and the U.S. Army Audit Agency (AAA) have issued 21 reports discussing Fund Balance With Treasury issues. Unrestricted GAO reports can be accessed over the Internet at <http://www.gao.gov>. Unrestricted IG DoD reports can be accessed at <http://www.dodig.osd.mil/audit/reports>. AAA reports are restricted to military domains and to the GAO.

GAO

GAO Report No. GAO-04-551T, "Department of Defense: Further Actions Needed to Establish and Implement a Framework for Successful Financial and Business Management Transformation," March 23, 2004

GAO Report No. GAO-02-589, "Information Security: Corps of Engineers Making Improvements, But Weaknesses Continue," June 10, 2002

GAO Report No. GAO-01-847, "Financial Management: Improvements in Air Force Fund Balance With Treasury Reconciliation Process," July 18, 2001

GAO Report No. GAO-01-89, "Financial Management: Significant Weaknesses in Corps of Engineers' Computer Controls," October 11, 2000

GAO Report No. GAO/AIMD-99-271, "Financial Audit: Issues Regarding Reconciliations of Fund Balances With Treasury Accounts," September 17, 1999

IG DoD

IG DoD Report No. D-2004-032, "Independent Auditor's Report on the U.S. Army Corps of Engineers, Civil Works, Fiscal Year 2003 Principal Financial Statements," December 3, 2003

IG DoD Report No. D-2004-023, "Financial Management: Corps of Engineers Financial Management System Accounting Processes," November 18, 2003

IG DoD Report No. D-2003-034, "Adjustments to the Intergovernmental Payments Account," December 10, 2002

IG DoD Report No. D-2002-019, "Checks Issued Differences for Deactivated Disbursing Stations," November 28, 2001

IG DoD Report No. D-2001-024, "Performance Measures for Disbursing Stations," December 22, 2000

IG DoD (cont'd)

IG DoD Report No. D-2000-123, "Disclosure of Differences in Deposits, Interagency Transfers, and Checks Issued in the FY 1999 DoD Agency-Wide Financial Statements," May 18, 2000

IG DoD Report No. D-2000-044, "Reconciliation of Differences Reported for Checks Issued by the Defense Finance and Accounting Service Columbus Center Disbursing Stations," November 30, 1999

IG DoD Report No. 99-226, "Interagency Transfer Reconciliations at Defense Finance and Accounting Service Columbus Center Disbursing Stations," July 28, 1999

IG DoD Report No. 99-211, "Deposit Reconciliations at Defense Finance and Accounting Service Columbus Center Disbursing Stations," July 9, 1999

AAA

AAA Report No. A-2002-0610-FFC, "Corps of Engineers Financial Management System: General and Application Controls," September 30, 2002

AAA Report No. AA 02-142, "FY 2001 Financial Statements, U.S. Army Corps of Engineers, Civil Works," February 08, 2002

AAA Report No. AA 01-187, "FY 2000 Financial Statements, U.S. Army Corps of Engineers, Civil Works," February 14, 2001

AAA Report No. AA 00-190, "Unexpended Appropriations, Army Working Capital fund FY 99 Financial Statements," February 28, 2000

AAA Report No. AA 00-186, "FY 1999 Financial Statements, U.S. Army Corps of Engineers, Civil Works," February 18, 2000

AAA Report No. AA 99-255, "FY 1998 Financial Statements Significant Matters, USACE," June 02, 1999

AAA Report No. AA 99-157, "FY 1998 Financial Statements, U.S. Army Corps of Engineers, Civil Works," February 08, 1999

Appendix C. U.S. Army Corps of Engineers Accounting and Reporting for Continuing Resolution Authority

Background. Continuing resolutions are joint resolutions (passed by the House and the Senate and signed by the President) that provide continuing appropriations for a fiscal year. Continuing resolutions are enacted when Congress has not yet passed one or more appropriations bills for a fiscal year or when the President has vetoed congressionally passed appropriations bills. Lacking appropriations, most programs cannot incur new obligations.

Continuing resolutions usually do not appropriate specific sums of money. Instead, continuing resolutions provide formulas for calculating the amounts available for continuing programs at minimal levels. After a continuing resolution is enacted into law, the Office of Management and Budget will issue a bulletin to automatically apportion amounts made available by the continuing resolution.

USACE Accounting and Reporting for Continuing Resolution Authority. USACE operated under a continuing resolution for FY 2003 until Treasury issued appropriation warrants authorized by Public Law 108-7, “Consolidated Appropriations Resolution, 2003,” February 20, 2003. Note 3, “Fund Balance With Treasury,” of the December 31, 2002, quarterly USACE financial statements stated that the \$3.1 billion Fund Balance With Treasury reported by USACE included \$1.7 billion of continuing resolution authority. Note 3 indicated that the \$3.1 billion USACE Fund Balance With Treasury reported by USACE differed from the \$1.4 billion USACE Fund Balance With Treasury reported by Treasury. This difference occurred because the \$1.7 billion of continuing resolution authority was included in the \$3.1 billion Fund Balance With Treasury reported by USACE.

Evolving Criteria. The methods used by the USACE to account and report continuing resolution authority on December 31, 2002, differ from current methods, which are still evolving. Statement of Federal Financial Accounting Standards No. 1, “Accounting for Selected Assets and Liabilities,” March 30, 1993, (Statement No. 1) states that an entity’s Fund Balance With Treasury is increased by continuing resolutions. However, the Treasury’s U.S. Government Standard General Ledger Board and Issues Resolution Committee (the Committee) posted an approved scenario, “Appropriations Provided by a Continuing Resolution,” October 16, 2002, on the Committee’s Web site for the United States Standard General Ledger, which did not increase an entity’s Fund Balance With Treasury during a continuing resolution, as indicated by Statement No. 1. The approved scenario showed a negative Fund Balance With Treasury for agencies operating under a continuing resolution until enactment of the regular appropriations bill. DoD guidance implementing the approved scenario did not exist at the time the December 31, 2002, quarterly USACE financial statements were prepared.

On April 15, 2004, the Committee met to discuss a proposal to establish a new account to capture the amount of Fund Balance With Treasury to be received under a continuing resolution when a warrant has not been issued. Treasury does not issue warrants for continuing resolutions in every instance.

However, during a followup meeting on April 29, 2004, a majority of the Committee, including representatives from the Office of Management and Budget and the Federal Accounting Standards Advisory Board, indicated that a new account was not necessary and recommended adding an explanation to clarify footnotes regarding a negative Fund Balance With Treasury during a continuing resolution. The Committee plans to submit a recommendation to the Office of Management and Budget to update Circular A-11, "Preparation, Submission, and Execution of the Budget," to include language that a negative Fund Balance With Treasury is acceptable during a continuing resolution. The DoD plans to implement the Treasury and Office of Management and Budget guidance.

Appendix D. Accounting Standards and Criteria for Fund Balance With Treasury and Unexpended Appropriations

Accounting Standards and Criteria for Fund Balance With Treasury.

Statement of Federal Financial Accounting Standards No. 1, “Accounting for Selected Assets and Liabilities,” March 30, 1993,¹ defines an agency’s Fund Balance With Treasury as the aggregate amount of funds in the agency’s accounts with Treasury for which the agency is authorized to make expenditures and pay liabilities. Fund Balance With Treasury is an intragovernmental item. From the reporting agency’s perspective, a Fund Balance With Treasury is an asset because it represents the agency’s claim to Federal Government resources. However, from the perspective of the Federal Government as a whole, it is not an asset; and while it represents a commitment to make resources available to Federal departments, agencies, programs, and other entities, it is not a liability.

A Federal entity’s Fund Balance With Treasury includes clearing account balances. An entity’s Fund Balance With Treasury is increased by:

- appropriations, reappropriations, continuing resolutions, appropriation restorations, and allocations received;
- transfers and reimbursements received from other agencies; and
- collections and credits to appropriation or fund accounts that the entity is authorized to spend or use to offset its expenditures.

An entity’s Fund Balance With Treasury is reduced by disbursements made to pay liabilities or to purchase assets, goods, and services, investments in U.S. securities, cancellation of expired appropriations, transfers and reimbursements to other entities or to the Treasury, and sequestration or rescission of appropriations.

Agencies should disclose the two parts of the Fund Balance With Treasury balance: the obligated balance not yet disbursed and the unobligated balance. In addition, agencies should explain any discrepancies between Fund Balance With Treasury in their general ledger accounts and the balance in the Treasury’s accounts and explain the causes of the discrepancies in footnotes to the financial statements.

Accounting Standards and Criteria for Unexpended Appropriations.

Statement of Federal Financial Accounting Standards No. 7, “Accounting for

¹ The Federal Accounting Standards Advisory Board (the Board) issues Statements of Federal Financial Accounting Standards. In October 1990, the Secretary of the Treasury, the Director of the Office of Management and Budget, and the Comptroller General of the United States established the mission for the Board, to develop accounting standards and principles for the United States Government. In October 1999, the American Institute of Certified Public Accountants recognized the Board as the organization that promulgates generally accepted accounting principles for Federal entities. In May 2003, the Board added a representative from the Congressional Budget Office to the Board.

Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting,” April 1996, states that appropriations, until used, should be recognized in capital as unexpended appropriations.

Appendix E. Treasury Reports for Fund Balance With Treasury

Treasury prepares five Fund Balance With Treasury reports including three Fund Balance With Treasury reports for receipt accounts and two Fund Balance With Treasury reports for expenditure accounts.

Treasury Reports for Receipt Accounts. The three Fund Balance With Treasury reports for receipt accounts are the:

- FMS 6655, “Receipt Account Trial Balance,”¹
- FMS 6655, “Receipt Account Ledger,”² and
- FMS 6655, “Report of Unavailable Receipt Transactions.”³

The three reports include summary information for each receipt account regarding:

- current month receipts and
- fiscal year-to-date Fund Balance With Treasury.

Treasury Reports for Expenditure Accounts. The two Fund Balance With Treasury reports for expenditure accounts are the:

- FMS 6654, “Undisbursed Appropriation Account Trial Balance,”⁴ and
- FMS 6653, “Undisbursed Appropriation Account Ledger.”⁵

The two reports show the same summary information for each expenditure account:

- beginning fiscal year Fund Balance With Treasury,
- fiscal year-to-date appropriations,
- fiscal year-to-date nonexpenditure transfers,

¹ The FMS 6655, “Receipt Account Trial Balance,” reports both available and unavailable receipt accounts. Treasury issues the FMS 6655, “Receipt Account Trial Balance,” every month for each applicable account (including accounts with no transactions during the month).

² Treasury issues the FMS 6655, “Receipt Account Ledger,” for accounts with transactions during the month but does not list accounts that had no transactions during the month.

³ The FMS 6655, “Report of Unavailable Receipt Transactions,” reports only unavailable receipt accounts. Treasury issues this report for accounts with transactions during the month but does not list accounts that had no transactions during the month.

⁴ Treasury issues the FMS 6654, “Undisbursed Appropriation Account Trial Balance,” every month for each applicable account (including accounts with no transactions during the month). Treasury reported clearing accounts on the FMS 6654, “Undisbursed Appropriation Account Trial Balance,” for USACE.

⁵ Treasury issues the FMS 6653, “Undisbursed Appropriation Account Ledger,” for accounts with transactions during the month but does not list accounts that had no transactions during the month.

-
- fiscal year-to-date net disbursements,⁶ and
 - fiscal year-to-date Fund Balance With Treasury.

The fiscal year-to-date appropriations line includes appropriation warrants issued by Treasury on the FMS 6200, “Department of the Treasury Appropriation Warrant,” or in invisible form.⁷

The fiscal year-to-date nonexpenditure transfers line includes nonexpenditure transfers made by Treasury on the SF 1151, “Nonexpenditure Transfer Authorization.”

The fiscal year-to-date net disbursements line includes net disbursements that agencies report to Treasury, by account, on statements of transactions.⁸

Therefore, the three lines provide the universe by transaction type (appropriation warrants, nonexpenditure transfers, and net disbursements) applicable to each expenditure account.

⁶ The reports also show the net disbursements by agency location code (ALC). The first two numbers of the agency location code represent the agency to which the Treasury has assigned the disbursing station. For example, net disbursements with an agency location code beginning with Treasury Index 21 represent disbursing stations that the Treasury assigned to the Army. Army disbursing stations now report to the Defense Finance and Accounting Service (DFAS) Indianapolis.

⁷ Treasury does not issue a FMS 6200, “Department of the Treasury Appropriation Warrant,” for certain funds reported as fiscal year-to-date appropriations. Funding provided without issuance of a FMS 6200, “Department of the Treasury Appropriation Warrant,” is referred to as an invisible warrant.

⁸ Agencies with disbursing authority report net disbursements by account on statements of transactions. DoD agencies use the SF 1220, “Statement of Transactions,” and the DD 1329, “Statement of Transactions.” The Department of State reports net disbursements by account on the SF 1221, “Statement of Transactions (Foreign Service Accounts).”

Appendix F. Glossary

Agreed-Upon Procedures. The types of work, as defined by their objectives that are covered by generally accepted government auditing standards, are classified as financial audits, attestation engagements, and performance audits. The three levels of attestation engagements include examination, review, and agreed-upon procedures. For agreed-upon procedures work, auditors perform testing to issue a report of findings based on specific procedures performed on subject matter.

Allocations. The amount of obligational authority transferred from one agency, bureau, or account that is set-aside in a transfer appropriation account to carry out the purpose of the parent appropriation or fund.

Appropriation. In most cases, appropriations are a form of budget authority provided by law that permits Federal agencies to incur obligations and make payments out of the Treasury for specified purposes. An appropriation usually follows enactment of authorizing legislation. An appropriation act is the most common means of providing budget authority, but in some cases the authorizing legislation itself provides the budget authority.

Budget Authority. Budget authority is authority provided by Federal law to incur financial obligations including:

- provisions of law that make funds available for obligation and expenditure (other than borrowing authority), including the authority to obligate and expend the proceeds of offsetting receipts and collections; borrowing authority (authority to borrow), which is authority granted to a Federal entity to borrow and obligate and expend the borrowed funds, including through the issuance of promissory notes or other monetary credits;
- contract authority that is statutory authority under which contracts or other obligations may be entered into prior to an appropriation for the payment of the obligations. The later appropriation provides cash to liquidate the obligations; offsetting receipts and collections as negative budget authority and the reduction of positive budget authority; and
- budget authority may be classified by period of availability (1-year, multiple-year, and no-year), nature of authority (current or permanent), the manner of determining amount available (definite or indefinite), or as gross (without reduction of offsetting collections) and net (with reductions of offsetting collections).

Clearing Account. Treasury establishes clearing accounts to temporarily hold unidentified general, special, or trust collections that subsequently will be credited to the proper receipt or expenditure account of the Federal entity. Clearing accounts are preceded by an “F” followed by a fund account symbol in the “3800” series group.

Deposit Fund. Treasury establishes a deposit fund account to record moneys that do not belong to the Federal Government.

Drawdowns. Treasury transfers funds from expenditure accounts using drawdowns when not using a hardcopy appropriation warrant.

FMS ([Financial Management Service]) 6200 “Appropriation Warrant” (Hard-copy Appropriation Warrants). A hard-copy appropriation warrant is a financial control document, issued pursuant to law (usually appropriation acts) by Treasury, that establishes the amount of monies authorized to be withdrawn (disbursed) from the central accounts that are maintained by Treasury. The hard-copy appropriation warrant is the basis for recording appropriations (cash) on the books of Treasury and the Department of Defense.

General Fund. Treasury establishes general fund expenditure accounts to record amounts appropriated by Congress for the general support of the Government.

Government On-Line Accounting Link Information Access System II. The system that allows Treasury to receive agency accounting data and distribute agency accounting reports. The system includes many different subsystems for different financial accounting and reporting purposes.

Government-Wide Accounting and Reporting Modernization. The system established specifically for Fund Balance With Treasury to capture the Treasury Account Symbol at the earliest possible time and post directly to the Fund Balance with Treasury. The Government-Wide Accounting and Reporting Modernization system streamlines the reporting and reconciliation processes, provides one access point by way of the internet to all Treasury government-wide accounting data, and provides reliable and timely information to users.

Interagency Transfers. Interagency transfers are made through the Intra-governmental Payment and Collection system (formerly called the On-Line Payment and Collection system) and the SF-1080, “Voucher for Transfer Between Appropriations and/or Funds.”

Invisible Warrants. Treasury transfers the funds from available receipt accounts to expenditure accounts through invisible warrants.

Materiality. The omission or misstatement of an item in a financial report is material if, in the light of surrounding circumstances, the magnitude of the item is such that it is probable that the judgment of a reasonable person relying upon the report would have been changed or influenced by the omission or misstatement of the item.

Reporting Materiality is the threshold for determining whether an unqualified opinion can be issued. In the reporting phase, the auditor considers whether unadjusted misstatements are quantitatively or qualitatively material. If considered to be material, the auditor would be precluded from issuing an unqualified opinion on the financial statements.

Planning materiality generally should be 3 percent of the materiality base. Although a mechanical means might be used to compute planning materiality, the auditor should use judgment in evaluating whether the computed level is appropriate. The auditor also should consider adjusting the materiality base for the impact of such items as unrecorded liabilities, contingencies, and other items that are not incorporated in the entity’s financial statements (and not reflected in the materiality base) but that may be important to the financial statement user.

Revolving Fund. Revolving funds are authorized by specific provisions of law to finance a continuing cycle of business-type operations. The receipts are credited directly to the revolving fund as offsetting collections and are available for expenditure without further action by Congress.

Special Fund. Treasury establishes special fund expenditure accounts to record amounts appropriated from special fund receipts. Agencies may expend those receipts for special programs according to specific provisions of law.

SF (Standard Form) 1219, “Statement of Accountability.” Each DoD disbursing station is required to prepare the Statement of Accountability monthly. The Statement of Accountability reports information to the Treasury on deposits, interagency transfers, and checks issued. The Statement of Accountability also reports net disbursements—the sum of the deposits, interagency transfers, and checks issued that month.*

SF 1220, “Statement of Transactions.” Each DoD disbursing station is required to prepare the Statement of Transactions monthly. The Statement of Transactions reports the disbursements shown on the Statement of Accountability by appropriation. Treasury requires that the net disbursements reported on the Statement of Transactions agree with the net disbursements reported on the Statement of Accountability.*

Transfers Between Appropriation/Fund Accounts. Occur when all or part of the budget authority in one account is transferred to another account when law specifically authorizes the transfers. The nature of the transfer determines whether the transaction is treated as an expenditure transfer or a non-expenditure transfer.

Trust Fund. Treasury establishes trust fund expenditure accounts to record amounts appropriated from trust fund receipts. Agencies may expend those receipts for specific purposes or programs according to the terms of a trust agreement or statute.

* IG DoD Report No. D-2003-034, “Adjustments to the Intergovernmental Payments Account,” December 10, 2002.

Appendix G. U.S. Army Corps of Engineers Subsidiary Accounts for Fund Balance With Treasury

As discussed in our prior report on the USACE accounting processes,¹ agencies may add digits to the 4-digit United States General Ledger accounts to establish subsidiary accounts. However, the total amounts reported in subsidiary accounts added to agency-unique charts of accounts agree with the total amounts reported in the applicable 4-digit United States Standard General Ledger accounts.

CEFMS uses 6-digit general ledger subsidiary accounts. For example, the United States Standard General Ledger account for Fund Balance With Treasury is account 1010, but CEFMS has 14 different general ledger subsidiary accounts (account 1010.11 through account 1010.54) for different types of Fund Balance With Treasury. The USACE United States Standard General Ledger account 1010, "Fund Balance With Treasury," includes 14 CEFMS general ledger subsidiary accounts for posting transactions and 5 CEFMS general ledger subsidiary accounts for summarizing transactions recorded in the applicable subsidiary posting accounts as shown in the table.

During FY 2003, USACE used 7 of the 14 subsidiary accounts for posting Fund Balance With Treasury transactions (account 1010.11, 1010.14, 1010.21, 1010.31, 1010.34, 1010.41, and 1010.51) and did not use 7 of the 14 subsidiary accounts for posting Fund Balance With Treasury transactions (account 1010.12, 1010.13, 1010.22, 1010.23, 1010.32, 1010.33, and 1010.54).

¹ IG DoD Report No. D-2004-023, "Financial Management: Corps of Engineers Financial Management System Accounting Processes," November 18, 2003.

CEFMS General Ledger Subsidiary Accounts for Fund Balance With Treasury			
<u>General Ledger Account Number</u>	<u>Account Title</u>	<u>Type of Account</u>	
1010.00	Fund Balance With Treasury	USSGL	DR
1010.10	Funds Collected	S	DR
1010.11	Funds Collected	P	DR
1010.12	Funds Collected – Operating Program – Working Capital Fund	P	DR
1010.13	Funds Collected – Capital Program – Working Capital Fund	P	DR
1010.14	Funds Collected – Advances Received	P	DR
1010.20	Funds Disbursed	S	CR
1010.21	Funds Disbursed	P	CR
1010.22	Funds Disbursed – Operating Program – Working Capital Fund	P	CR
1010.23	Funds Disbursed – Capital Program – Working Capital Fund	P	CR
1010.30	Funds With Treasury	S	DR
1010.31	Funds With Treasury	P	DR
1010.32	Funds With Treasury – Operating Program – Working Capital Fund	P	DR
1010.33	Funds With Treasury – Capital Program – Working Capital Fund	P	DR
1010.34	Fund Balance With Treasury – Advances Received	P	DR
1010.40	Undistributed Collections	S	CR
1010.41	Undistributed Collections	P	CR
1010.50	Undistributed Disbursements	S	DR
1010.51	Undistributed Disbursements	P	DR
1010.54	Undistributed Disbursements – Working Capital Fund – Installation Level	P	DR

S = Summary Account used to subtotal amounts in applicable subsidiary posting accounts.

P = Posting Account used to record transactions

DR = Debit

CR = Credit

Appendix H. Accounting Entries to Record Funding

The DoD Regulation 7000.14-R, the “DoD FMR,” volume 4, chapter 2, “Accounting for Cash and Fund Balances With Treasury,” January 1995, requires agencies to make the following accounting entries to record funding.

Funding Received. The regulation requires the following entry to record funding received, including appropriation warrants, nonexpenditure transfers, and other authority and fund transfers from current year and prior year appropriations and funds.

DR Account No. 1013, “Funds With Treasury”
CR Account No. 3100, “Appropriated Capital”

Funding Transferred. The regulation requires the following entry to record funding transferred, including nonexpenditure transfers and other authority, fund transfers to current year and prior year appropriations, and funds and budgetary authority rescinded by legislative action.

DR Account No. 3100, “Appropriated Capital”
CR Account No. 1013, “Funds With Treasury”

Appendix I. FY 2003 Transactions Applicable to Expenditure and Receipt Accounts Excluded from CEFMS and CEEMIS

FY 2003 Transactions (Absolute Value) Applicable to Expenditure and Receipt Accounts Excluded from CEFMS and CEEMIS			
<u>Transactions</u>	<u>Expenditure Accounts¹</u>	<u>Receipt Accounts²</u>	<u>Total</u>
Beginning Balance ³	\$ 806.97	N/A	\$ 806.97
Appropriation Warrants ⁴	60,422,658.54	N/A	60,422,658.54
Nonexpenditure Transfers ⁵	619,322,700.01	N/A	619,322,700.01
Net Disbursements ⁶	<u>578,900,000.00</u>	<u>\$17,818,179.89</u>	<u>596,718,179.89</u>
Total	\$1,258,646,165.52	\$17,818,179.89	\$1,276,464,345.41

¹ Expenditure account 96033129, account 96X5007, account 96X8217, and account 9620X8863.

² Receipt account 965125, account 968217.001, and account 968217.002.

³ Source: Beginning fiscal year Fund Balance With Treasury reported on the September 30, 2003, FMS 6654, "Undisbursed Appropriation Account Trial Balance."

⁴ Source: FMS 6200, "Department of the Treasury Appropriation Warrant," for account 96033129 and account 96X5007. Invisible warrant funding from available receipt accounts for account 96X8217.

⁵ Source: SF 1151, "Nonexpenditure Transfer Authorization," for account 96X5007. Automated nonexpenditure transfer authorization made in the Governmentwide Accounting and Reporting system for account 9620X8863.

⁶ Source: SF 1220, "Statement of Transactions," for accounts 96033129 and 9620X8863. FMS 6655, "Receipt Account Trial Balance," for account 965125, 968217.001, and 968217.002.

Appendix J. DoD Disbursing Stations, Finance Centers, and the DoD Reporting Process for Collections and Disbursements

As discussed in our December 2002 report on the Fund Balance With Treasury account,¹ the Treasury makes collections and disbursements for most Federal agencies. Congress provided disbursement authority to DoD under section 3321, title 31, United States Code (31 U.S.C. 3321). DoD established disbursing stations and finance centers to make collections and disbursements and report the information to the Treasury.

Disbursing Stations. The DoD disbursing stations are authorized to make deposits, initiate interagency transfers, and issue U.S. Treasury Checks. Disbursing stations are accountable to the Treasury for their collections and disbursements. Each disbursing station is required to prepare the following reports monthly.

- SF 1219, “Statement of Accountability,” reports information to the Treasury on deposits,² interagency transfers,³ and checks issued. The Statement of Accountability also reports net disbursements—the sum of the deposits, interagency transfers, and checks issued that month.
- SF 1220, “Statement of Transactions,” reports the disbursements shown on the Statement of Accountability by appropriation. The Treasury requires that the net disbursements reported on the Statement of Transactions agree with the net disbursements reported on the Statement of Accountability.

Finance Centers. The DoD finance centers and the military activities make intergovernmental payments through the Interfund Billing System.⁴ The finance centers report intergovernmental payments made through the Interfund Billing System on the DD Form 1400, “Statement of Interfund Transactions.” The Statement of Interfund Transactions reports intergovernmental payments made through the Interfund Billing System by appropriation.

Reporting Process for Collections and Disbursements. Each DoD disbursing station submits its monthly Statement of Accountability and Statement of Transactions to a finance center. Army disbursing stations report to DFAS Indianapolis, Indianapolis, Indiana; Navy disbursing stations report to DFAS Cleveland, Cleveland, Ohio; Air Force disbursing stations report to DFAS Denver,

¹ IG DoD Report No. D-2003-034, “Adjustments to the Intergovernmental Payments Account,” December 10, 2002.

² The Statement of Accountability reports deposits and electronic funds transfers as a combined total on line 4.2, “Deposits Presented to Bank.”

³ Interagency transfers are made through the Intra-governmental Payment and Collection System (formerly the On-line Payment and Collection System) and the SF-1080, “Voucher for Transfer Between Appropriations and/or Funds.”

⁴ The Interfund Billing System includes supply system sales and purchases of material, including perishable subsistence and fuels, between the Defense agencies, Army, Navy, and Air Force.

Denver, Colorado; and USACE disbursing stations report to the USACE Finance Center, Millington, Tennessee.

Each finance center combines the Statements of Accountability received from its disbursing stations and electronically submits a combined Statement of Accountability to the Treasury using the Government On-Line Accounting Link System II, a Federal financial telecommunications network. The finance centers also combine the Statements of Transactions and the Statements of Interfund Transactions and submit the combined statement to the Treasury every month.

The Treasury records the collection and disbursement data from the Statements of Transactions in the Fund Balance With Treasury account maintained for each receipt account and expenditure account in the U.S. Treasury's accounting and reporting system. The Treasury issues the monthly Fund Balance With Treasury reports, as previously discussed, which state the net disbursement data (the net of collections and disbursements) applicable to each agency's accounts.

Appendix K. Procedures and Requirements for Interagency Transfers

Treasury and DoD have established procedures for processing interagency transfers, requirements for reporting interagency transfers to Treasury on the Statement of Accountability, and requirements for reconciling interagency transfer differences reported by Treasury on the Statement of Differences.

Procedures for Processing Interagency Transfers. Volume I, part 6, chapter 4000, “On-line Payment and Collection (OPAC) System,” October 14, 1994, of the Treasury Financial Manual establishes procedures for making online billings, collections, and payments through the system. Volume 5, chapter 24, “Electronic Commerce,” August 1999, of DoD Regulation 7000.14-R, the “DoD FMR,” implements the Treasury procedures for using the system. USACE did not establish procedures for processing interagency transfers.

On December 3, 2001, the Treasury replaced the On-Line Payment and Collection system, which had been operational since 1985, with the Intra-governmental Payment and Collection system. Agencies process interagency transfers through the Treasury’s Intra-governmental Payment and Collection system based on requirements established in the Treasury Financial Manual and trading partnership agreements. Agencies agree to abide by monthly cut-off dates established in trading partnership agreements and not process interagency transfers after the cut-off date. The USACE trading partnership agreement states that: “Both Trading Partners agree not to process any IPAC/OPAC transactions during the last five (5) business days of the month without prior approval of both parties.”

Requirements for Reporting Interagency Transfers to Treasury on the Statement of Accountability. Volume I, part 2, chapter 3100, “Instructions for Disbursing Officers’ Reports,” February 6, 1997, of the Treasury Financial Manual, requires agencies to report interagency transfers processed through the Intra-governmental Payment and Collection system (formerly the On-Line Payment and Collection system) on line 2.80, “OPAC Payments and Collections,” of the SF 1219, “Statement of Accountability.” Volume 5, chapter 19, “Disbursing Officer Accountability Reports,” August 1999, of DoD Regulation 7000.14-R, the “DoD FMR,” implements the Treasury reporting requirements. USACE Desk Operating Procedure No. 14, “SF 1220 & SF 1219 Statements of Accountability,” March 6, 2000, establishes USACE procedures for preparing the SF 1219, “Statement of Accountability.” However, the USACE procedure did not include guidance for reporting interagency transfers.

Requirements for Reconciling Interagency Transfer Differences Reported by Treasury on the Statement of Differences. Volume I, part 2, chapter 5100, “Reconciling Fund Balance With Treasury Accounts,” October 18, 1999, of the Treasury Financial Manual requires agencies to perform timely reconciliations and implement effective and efficient reconciliation processes for the Fund Balance With Treasury account. Treasury has designed a central reconciliation process to support the reconciliation of the Fund Balance With Treasury account.

Treasury reports its reconciliation for interagency transfers to agencies on the FMS 6652, "Statement of Differences Disbursing Transactions," (Statement of Differences). The Statement of Differences compares interagency transfer totals reported on line 2.80, "OPAC Payments and Collections," of the agency's Statement of Accountability with interagency transfer schedules produced by the Government On-Line Accounting Link System. Treasury requires agencies to document their reconciliation of the differences and make the reconciliation available to agency management, auditors, and Treasury, if requested.

Volume 5, chapter 24, "Electronic Commerce," August 1999, of DoD Regulation 7000.14-R, the "DoD FMR," implements the Treasury procedures for reconciling interagency transfer differences.

The USACE has developed procedures for reconciling differences. However, the procedures did not require accountants to identify the cause of the interagency transfer differences or the impact of the differences on either the Treasury reports for Fund Balance With Treasury or the Fund Balance With Treasury reported on the USACE financial statements.

Interagency transfer differences may be caused by either interagency transfers that have been successfully processed through the Intra-governmental Payment and Collection system (processed interagency transfers) or that have not been successfully processed through the Intra-governmental Payment and Collection system (unprocessed interagency transfers). Interagency transfer differences caused by unprocessed interagency transfer collections and unprocessed interagency transfer disbursements may have the following impacts.

- **Unprocessed Interagency Transfer Collections.** Interagency transfer differences, caused by including unprocessed interagency transfer collections in the agency disbursing system and erroneously reporting the collections to Treasury on the Statement of Accountability and Statement of Transactions, will understate net disbursements and overstate balances reported on Treasury reports for Fund Balance With Treasury. *If the (1) unprocessed interagency transfer collections included in the disbursing system are erroneously included in the agency accounting general ledger system, and (2) the agency does not adjust the agency financial statements to remove the unprocessed interagency transfer collections erroneously included in the agency accounting general ledger system, then the unprocessed interagency transfer collections will cause the agency to overstate Fund Balance With Treasury reported on the agency financial statements.*
- **Unprocessed Interagency Transfer Disbursements.** Interagency transfer differences, caused by including unprocessed interagency transfer disbursements in the agency disbursing system and erroneously reporting the disbursements to Treasury on the Statement of Accountability and Statement of Transactions, will overstate net disbursements and understate balances reported on Treasury reports for Fund Balance With Treasury. *If the (1) unprocessed interagency transfer disbursements included in the disbursing system are erroneously included in the agency accounting general ledger system, and (2) the agency does not adjust the agency financial statements to remove the unprocessed interagency transfer disbursements erroneously included in the agency accounting general ledger system,*

then the unprocessed interagency transfer disbursements will cause the agency to understate Fund Balance With Treasury reported on agency financial statements.

Interagency transfer differences caused by processed interagency transfer collections and processed interagency transfer disbursements may have the following impacts.

- **Processed Interagency Transfer Collections.** Interagency transfer differences, caused by erroneously omitting processed interagency transfer collections from the agency disbursing system, and erroneously omitting the collections on the Statement of Accountability and Statement of Transactions reports to Treasury, will overstate net disbursements and understate balances reported on the Treasury reports on Fund Balance With Treasury. *If the (1) processed interagency transfer collections erroneously omitted from the disbursing system are erroneously omitted from the agency accounting general ledger system, and (2) the agency does not adjust the agency financial statements to add the processed interagency transfer collections erroneously omitted from the agency accounting general ledger system, then the processed interagency transfer collections will cause the agency to understate Fund Balance With Treasury reported on agency financial statements.*
- **Processed Interagency Transfer Disbursements.** Interagency transfer differences, caused by erroneously omitting processed interagency transfer disbursements from the agency disbursing system, and erroneously omitting the disbursements on the Statement of Accountability and Statement of Transactions reports to Treasury, will understate net disbursements and overstate balances reported on the Treasury reports for Fund Balance With Treasury. *If the (1) processed interagency transfer disbursements erroneously omitted from the disbursing system are erroneously omitted from the agency accounting general ledger system, and (2) the agency does not adjust the agency financial statements to add the processed interagency transfer disbursements erroneously omitted from the agency accounting general ledger system, then the processed interagency transfer disbursements will cause the agency to overstate Fund Balance With Treasury reported on agency financial statements.*

The table summarizes the impacts of interagency transfer differences on the Treasury reports for Fund Balance With Treasury and the Fund Balance With Treasury reported on agency financial statements *when interagency transfer differences are caused by erroneously including unprocessed interagency transfer collections and disbursements, or erroneously omitting processed interagency transfer collections and disbursements in the Statement of Accountability reports to Treasury and the agency accounting general ledger system.*

Table. Impact of Interagency Transfer Differences on Treasury Reports for Fund Balance With Treasury and Fund Balance With Treasury Reported on Agency Financial Statements

<u>Cause of Interagency Transfer Difference</u>	<u>Impact on Treasury Reports for Fund Balance With Treasury</u>		<u>Impact on Agency Financial Statements</u>
	<u>Net Disbursements</u>	<u>Fund Balance With Treasury</u>	<u>Fund Balance With Treasury*</u>
Unprocessed Interagency Transfer Collection Reported on Statement of Accountability	Understate	Overstate	Overstate
Unprocessed Interagency Transfer Disbursement Reported on Statement of Accountability	Overstate	Understate	Understate
Processed Interagency Transfer Collection Not Reported on Statement of Accountability	Overstate	Understate	Understate
Processed Interagency Transfer Disbursement Not Reported on Statement of Accountability	Understate	Overstate	Overstate

* Impact on Fund Balance With Treasury reported on agency financial statements when agencies do not adjust the financial statements for interagency transfers erroneously included or erroneously omitted from the Statement of Accountability reports to Treasury and the agency accounting general ledger system.

Appendix L. 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

Assistant Secretary of the Army (Financial Management and Comptroller)
Commander, U.S. Army Corps of Engineers
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

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

U.S. Army Corps of Engineers Comments



DEPARTMENT OF THE ARMY
U.S. ARMY CORPS OF ENGINEERS
441 G ST. NW
WASHINGTON, D.C. 20314-1000

CEIR (36-2b)

15 December 2004

MEMORANDUM FOR Director, Defense Financial Auditing Service, Inspector General Department of Defense. 400 Army Navy Drive, Arlington, VA 22202

SUBJECT: Draft Report on Reliability of U.S. Army Corps of Engineers, Civil Works, Fund Balance With Treasury and Unexpended Appropriations. (Project No. D2004FD-0044)

The USACE response to each Department of Defense Inspector General (DoDIG) report recommendations follows:

RECOMMENDATION A.1: We recommend that the Commander, U.S. Army Corps of Engineers:

- a. Revise accounting practices for expenditure account 96X8333, account 9620X8861, account 9689X4045, and account 9669X8083 to comply with generally accepted accounting principles and exclude contract authority from the Fund Balance With Treasury account, as required by Statement of Federal Financial Accounting Standards No. 1, "Accounting for Selected Assets and Liabilities," Paragraph 34, March 30, 1993.

Comments:

Concur: A CEFMS problem report will be entered by 31 December 2004 to cite the requirements of SFFAS No 1, paragraph 34. USACE Finance Center (UFC) Directorate of Financial Systems will provide an estimated timeframe to accomplish the system change. USACE is presently making a journal voucher adjusting the financial statements to reduce the work allowance/contract authority from the Funds Balance with Treasury account, therefore ensuring that the financial statements are reasonably and fairly presented.

- b. Modify the U.S. Army Corps of Engineers Financial Management System to comply with generally accepted accounting principles and exclude contract authority from the Fund Balance With Treasury account, as required by Statement of Federal Financial Accounting Standard No. 1, "Accounting for Selected Assets and Liabilities," paragraph 34, March 30, 1993. Specifically, modify the system to

CEIR (36-2b)

15 December 2004

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allow valid obligations to be recorded for trust fund accounts, with sufficient contract authority to cover the obligation, without regard to the balance in the Fund Balance With Treasury account.

Comments:

Concur: See response to A.1.a. above. A CEFMS problem report will be entered to cite the requirements of SFFAS No 1, paragraph 34. UFC Directorate of Financial Systems will provide an estimated timeframe to accomplish the system change. Presently, the CEFMS system will not allow for an obligation to be processed without proper authority in the system.

c. Establish and maintain U.S. Standard General Ledger account 1010, "Fund Balance With Treasury," in the U.S. Army Corps of Engineers Financial Management System and the U.S. Army Corps of Engineers Enterprise Management Information System to facilitate reconciliation with Treasury reports for Fund Balance With Treasury. Specifically, establish Fund Balance With Treasury accounts for:

- (1) Expenditure account 96033129, "Payment to the South Dakota Terrestrial Wildlife Habitat Restoration Trust Fund (fiscal year)," account 96X5007, "Special Recreation Use Fees, Corps of Engineers, Civil," account 96X8217, "South Dakota Terrestrial Wildlife Habitat Restoration Trust Fund," and account 9620X8863, "Harbor Maintenance Trust Fund."
- (2) Receipt account 965125, "Licenses Under Federal Power Act, Improvements of Navigable Waters, Maintenance and Operation of Dams," account 968217.001, "Payment from General Fund, South Dakota Terrestrial Wildlife Habitat Restoration Trust Fund," and account 968217.002, "Earnings on Investments, South Dakota Terrestrial Wildlife Habitat Restoration Trust Fund."

Comments:

Concur: USACE will establish procedures to record the Treasury warrant and the payment from the expenditure account and collection to the South Dakota Terrestrial Wildlife Habitat Restoration Trust Fund in the CEFMS database (96X033129 and 96X8217.001). In addition, USACE will investigate a possible method of recording in CEFMS the appropriation-96X5007, Special Recreation Use Fees, Harbor Maintenance Trust Fund-96

CEIR (36-2b)

15 December 2004

SUBJECT: Draft Report on Reliability of U.S. Army Corps of Engineers, Civil Works, Fund Balance With Treasury and Unexpended Appropriations. (Project No. D2004FD-0044)

20X8863, South Dakota Trust fund- 96X8217.002, Licenses Under Federal Power Act-96X5125, and 96X8217 South Dakota Terrestrial Wildlife Habitat Restoration Trust Fund. USACE Finance Center will coordinate with HQ Budget on issuing a Funding Authorization Document and subsequent revocation to be recorded in the CEFMS database for 96X5007.

d. Establish and maintain separate Fund Balance With Treasury subsidiary accounts in the U.S. Army Corps of Engineers Financial Management System and the U.S. Army Corps of Engineers Enterprise Management Information System to facilitate reconciliation with Treasury reports for Fund Balance With Treasury subsidiary accounts for:

- (1) Appropriation warrants including (a) FMS 6200, "Department of the Treasury Appropriation Warrant," (b) invisible warrant funding, and (c) drawdowns.
- (2) SF 1151, "Nonexpenditure Transfer Authorization," and electronic nonexpenditure transfer made through the Government-wide accounting system.
- (3) Beginning fiscal year Fund Balance With Treasury.

Comments:

Concur: HQUSACE will coordinate with OSD(C) on their guidance for establishing fund type specific general ledger attributes and CEFMS will be modified to be in compliance with the OSD (C) guidance.

e. Develop a comprehensive standard operating procedure for Fund Balance With Treasury that requires accountants to:

- (1) Compare the Fund Balance With Treasury accounts for each expenditure and receipt account reported on the monthly Treasury reports for Fund Balance With Treasury with the Fund Balance With Treasury accounts established in the U.S. Army Corps of Engineers Financial Management System and the U.S. Army Corps of Engineers Enterprise Management Information System to ensure the recording of all accounts in both systems.

Comments:

CEIR (36-2b)

15 December 2004

SUBJECT: Draft Report on Reliability of U.S. Army Corps of Engineers, Civil Works, Fund Balance With Treasury and Unexpended Appropriations.
(Project No. D2004FD-0044)

Concur: The reconciliation of Funds Balance With Treasury expenditure and receipt accounts to Treasury monthly report is being performed on a monthly basis. During FY 2005 the UFC will coordinate with HQ Budget on issuing Funding Authorization Documents and applicable revocations to support and reflect the activity reflected on the Treasury 6653/6655. Current UFC SOPs will be revised to reflect requirement to reconcile at CEFMS transaction level to the Treasury 6653/6655. UFC standard operating procedure "Reconciling Funds Balance with Treasury to Treasury FMS 6653/6654/6655" dated March 2004 covers the reconciliation procedures.

(2) Reconcile applicable Fund Balance With Treasury subsidiary accounts shown in the U.S. Army Corps of Engineers Financial Management System and the U.S. Army Corps of Engineers Enterprise Management Information System for each expenditure and receipt account with amounts reported on monthly Treasury reports for Fund Balance With Treasury.

Comments:

Concur: Reconciliation is performed at the summary account (1010) USSGL level. On December 15, 2004, HQUSACE requested OSD(C) guidance for establishing fund type specific general ledger attributes and CEFMS will be modified to be in compliance with the OSD (C) guidance.

f. Revise the USACE procedures to include:

(1) An overall table of contents, to a website to facilitate the availability of the information.

Comments: Concur UFC will work to establish a link on the public website to the US Army Corps of Engineer Finance Center SOP's. This will be completed by 28 February 2005.

(2) Number and issue date of superceded procedures.

Comments: Concur UFC will keep web site updated and current.

(3) Issue date and effective date for revised or new procedures.

Comments: Concur UFC will keep web site updated and current.

(4) Summary of procedural changes.

Comments: Concur UFC will keep web site updated and current.

CEIR (36-2b)

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(5) Point of contact and phone number.

Comments: Concur UFC will keep web site updated and current.

RECOMMENDATION B. We recommend that the Commander, U.S. Army Corps of Engineers develop a comprehensive standard operating procedure for Fund Balance With Treasury that:

1. Establishes cut-off procedures for interagency transfers that comply with monthly cut-off dates established in trading partner agreements for interagency transfers.

Comments:

Concur: Cutoff procedures were implemented in FY 2004 in accordance with trading partner agreements and DFAS regulation. Reference DFAS 7230 1-1, paragraph 6.1.4 dated 30 April 2004.

2. Requires USACE accountants to:

(a) Report interagency transfers on the Statement of Accountability and Statement of Transactions in compliance with fiscal year-end cut-offs established in trading partner agreements for interagency transfers.

(b) Reconcile interagency transfer differences reported on the monthly Treasury Statements of Differences and develop a matrix (similar to the table in Appendix J) to document the effect of the differences on the:

(1) Fund Balance With Treasury amounts reported on the monthly Treasury reports on Fund Balance With Treasury.

Comments: Concur Interagency transfer transactions are posted to the Statement of Accountability and Statement of Transactions in CEFMS as the transactions are processed. This is incorporated into the SOP 104 "Reconciliation of Statement of Differences for Check Issue, Deposits and Intra-Governmental Payment and Collection (IPAC)" dated April 2004.

(2) Fund Balance With Treasury amounts reported on the quarterly and year-end U.S. Army Corps of Engineers' financial statements.

CEIR (36-2b)

15 December 2004

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(Project No. D2004FD-0044)

Comments: Concur UFC-SOP 104 dated April 2004 is in place to reconcile the Statement of Differences and will be referenced in the updated comprehensive UFC-SOP 102, dated March 2004, for reconciling Fund Balance with Treasury to be completed during FY 2005.

(c) Adjust amounts to be reported on the quarterly and year-end U.S. Army Corps of Engineers' financial statements resulting from the reconciliation of the Treasury Statements of Differences when the error will cause a material misstatement if an adjustment is not made. Specifically, USACE should adjust proprietary accounts including, Fund Balance With Treasury, accounts receivable, and applicable budgetary accounts.

Comments: Concur Procedure is in place to incorporate the statement of differences amount into the financial statements. UFC-SOP 089 dated May 2004 - "Audited Financial Statements" will be revised and updated during FY 2005 to include the specific requirements and procedures for including the statement of differences.

(d) Reconcile revolving fund (96X4902) collections and disbursements reported in the U.S. Army Corps of Engineers Financial Management System with the monthly Treasury reports for Fund Balance With Treasury (FMS 6653, "Undisbursed Appropriation Account Ledger") as follows:

- (1) Reconcile revolving fund collections separately from disbursements.

Comments: Concur Revolving Fund Cash is separately reconciled on a monthly basis. UFC personnel maintain supporting documentation and an audit trail to support the balance. Current UFC Revolving Fund Cash Reconciliation SOPs will be revised during FY 2005 to formalize the detailed and specific procedures for reconciling the Revolving Fund appropriation.

- (2) Reconcile revolving fund collections by collecting agency and revolving fund disbursements by disbursing agency.

CEIR (36-2b)

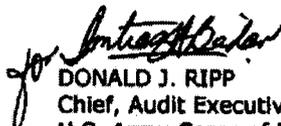
15 December 2004

SUBJECT: Draft Report on Reliability of U.S. Army Corps of Engineers, Civil Works, Fund Balance With Treasury and Unexpended Appropriations.
(Project No. D2004FD-0044)

Comments: Concur Current UFC Revolving Fund Cash Reconciliation SOPs will be revised during FY 2005 to formalize the detailed and specific procedures for reconciling the Revolving Fund appropriation. A line item on the 6653 may consist of disbursements and collections, but is reported on the 6653 as a net disbursement. As stated in item (4) above, the net transactions are reconciled monthly. UFC personnel maintain supporting documentation and an audit trail to support the balance.

The POC for this response is Ms. Cynthia Blevins (901) 874-8408 or Mr. Imtiaz Badar (202) 761-1987

FOR THE COMMANDER:


DONALD J. RIPP
Chief, Audit Executive
U.S. Army Corps of Engineers

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