

May 10, 2005



Financial Management

Appropriations Received and Net
Transfers on the FY 2004 DoD
Agency-Wide Financial Statements
(D-2005-061)

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Office of the Inspector General

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Article I, Section 9

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Acronyms

DFAS	Defense Finance and Accounting Service
MERHCF	Medicare Eligible Retiree Health Care Fund
MRF	Military Retirement Fund
ODO	Other Defense Organizations
OMB	Office of Management and Budget
OUSD(C)/CFO	Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer
SBR	Statement of Budgetary Resources
USACE	United States Army Corps of Engineers



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

May 10, 2005

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/
CHIEF FINANCIAL OFFICER
ASSISTANT SECRETARY OF THE AIR FORCE
(FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE
AUDITOR GENERAL, DEPARTMENT OF THE ARMY
NAVAL INSPECTOR GENERAL

SUBJECT: Report on Appropriations Received and Net Transfers on the FY 2004
DoD Agency-Wide Financial Statements (Report No. D-2005-061)

We are providing this report for information and use. We considered management comments on a draft of this report when preparing the final report. The Defense Finance and Accounting Service and U.S. Army Corps of Engineers comments conformed to the requirements of DoD Directive 7650.3; therefore, additional comments are not required.

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. Marvin L. Peek at (703) 325-5777 (DSN 221-5777) or Mr. Scott S. Brittingham at (703) 325-6104 (DSN 221-6104). The team members are listed inside the back cover. See Appendix B for the report distribution.

By direction of the Deputy Inspector General for Auditing:

A handwritten signature in cursive script, reading "Paul J. Granetto".

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

Department of Defense Office of the Inspector General

Report No. D-2005-061

May 10, 2005

(Project No. D2004FA-0117)

Appropriations Received and Net Transfers on the FY 2004 DoD Agency-Wide Financial Statements

Executive Summary

Who Should Read This Report and Why? DoD personnel responsible for the preparation and consolidation of DoD financial statements should read this report. It discusses the reliability of reported appropriations received and net transfers.

Background. We performed the audit as part of our continuing audit work in support of the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994, which requires DoD and other Government agencies to prepare audited financial statements.

Results. At the request of the Financial Improvement Executive Steering Committee, we audited the accuracy of reported appropriations received on the DoD financial statements. DoD accurately reported appropriations received on the published FY 2004 DoD Agency-Wide Statement of Budgetary Resources in that we identified no material misstatements. During the audit, we identified nonmaterial errors on both the mid-year and year-end financial statements. However, the Defense Finance and Accounting Service made corrections totaling \$1 billion, which were reflected in the published FY 2004 DoD Agency-Wide Statement of Budgetary Resources. In addition, the audit disclosed that the DoD Agency-Wide Statement of Budgetary Resources included appropriations received for the Military Retirement Fund and the Medicare Eligible Retiree Health Care Fund, twice. The Office of Management and Budget was aware and approved of this duplication in reporting. However, at our request, DoD agreed to disclose the duplicate reporting in the footnotes to the FY 2004 DoD Agency-Wide Financial Statements. Therefore, no recommendations for corrective actions are warranted. (finding A)

DoD inaccurately reported net transfers of budget authority on the FY 2004 DoD Agency-Wide Statement of Budgetary Resources. The Defense Finance and Accounting Service misclassified \$1.4 billion in transfers out from the Army Working Capital Fund because review procedures did not effectively verify accounting adjustments and resolve reporting inconsistencies. In addition, the U.S. Army Corps of Engineers Finance Center misclassified \$39.9 million net transfers because review procedures did not effectively resolve reporting inconsistencies. We concluded that negative \$519.3 million reported as net transfers of budget authority on the FY 2004 DoD Agency-Wide Statement of Budgetary Resources was materially understated by \$1.5 billion. However, the effects of the misstatements were not material to the FY 2004 DoD Agency-Wide Statement of Budgetary Resources. (finding B)

Management Comments. The Director of Accounting Services for Army at Defense Finance and Accounting Service Indianapolis concurred with the recommendations and

stated that Defense Finance and Accounting Service Indianapolis will institute additional review procedures to ensure that no journal voucher entry contradicts procedures or guidance issued for reporting the information on the SF 133 Report on Budget Execution and Budgetary Resources. Further, the Defense Finance and Accounting Service will ensure that all journal vouchers contradicting original guidance are documented by either Office of the Secretary of Defense or Department of Treasury guidance directing that an adjustment be made. Accounting personnel will rely only on official Defense Finance and Accounting Service guidance. The Commander of the U.S. Army Corps of Engineers concurred with the recommendation stating that the Finance Center would institute a line by line reconciliation between the Statement of Budgetary Resources and the SF 133 Report on Budget Execution and Budgetary Resources. See the Findings section of the report for a discussion of management comments and the Management Comments section of the report for the complete text of the comments.

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Background

We performed the audit as part of our continuing audit work in support of the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994. The Act requires DoD and other Government agencies to prepare audited financial statements. We audited this specific subject area, the accuracy of appropriations received as presented on the Statement of Budgetary Resources, at the request of the Financial Improvement Executive Steering Committee, chaired by the Deputy Chief Financial Officer in the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer (OUSD[C]/CFO).

Current Posture of DoD Financial Statements. DoD received a disclaimer on its FY 2004 Financial Statements. DoD has acknowledged that:

- DoD-wide systemic deficiencies in financial management systems and business processes render it unable to collect and report financial and performance information that is accurate, reliable, and timely.
- DoD continues to enter material amounts of unsupported accounting entries.

DoD Reporting Entities. The Office of Management and Budget (OMB) requires DoD to prepare audited financial statements for Army General and Working Capital Funds, Navy General and Working Capital Funds, Air Force General and Working Capital Funds, Military Retirement Trust Fund, and the U.S. Army Corps of Engineers (USACE) Civil Works Program. In addition, DoD reports on the Other Defense Organizations (ODO) General and Working Capital Funds and the Medicare Eligible Retiree Health Care Fund, which are also included in the DoD Agency-Wide Financial Statements.

Appropriations Received. An appropriation is a provision of law, not necessarily in an appropriation act, authorizing the expenditure of funds for a given purpose. Appropriations received are amounts specified in appropriations acts (or in substantive laws) that become available for obligation beginning October 1 of the fiscal year. For FY 2004, DoD General and Working Capital Fund reporting entities received appropriations derived from six different appropriation acts, permanent indefinite appropriations, and special and trust funds. See Appendix A for the specific laws.

In addition, DoD reporting entities received appropriated receipts, that is, collections deposited in special and trust funds earmarked for specific purposes. These special and trust funds are established by the United States Code to receive earmarked and dedicated receipts. This would include:

- gift contributions from an outside source,
- Military contributions (appropriated to a general fund) made to special or trust funds, and
- interest earned on investments made by a special or trust fund.

Net Transfers of Budget Authority. Net transfers of budget authority represent current-year authority that is transferred to or from an account. Transfers between appropriations must be authorized by law and represent a redistribution of unobligated balances of budget authority between appropriation accounts for the benefit of the gaining appropriation account.

Statement of Budgetary Resources. The Statement of Budgetary Resources (SBR) and related disclosures provide information about how budgetary resources were made available as well as their status at the end of the period. Information on the SBR should be consistent with budget execution information reported on the Report on Budget Execution and Budgetary Resources (SF 133) and with information reported in the Budget of the United States Government. The SBR aggregates account-level information reported in individual SF 133s. Appropriations Received (Line 1.a. on the SBR) includes all new appropriated amounts for the current year. Net Transfers (Line 1.d. on the SBR) represents net transfers of new budget authority. The SBR is combining; therefore, there are no eliminations at the DoD agency-wide level. For FY 2004, the DoD Agency-Wide SBR showed \$582 billion in appropriations received, and a negative figure of \$519.3 million in net transfers of budgetary authority.

Objectives

Our overall announced audit objective was to assess the accuracy and reliability of appropriations received on the SBR for the FY 2004 Mid-Year DoD Agency-Wide Financial Statements. At the request of the OUSD(C)/CFO, we extended our review to the year-end financial statements and included a review of net transfers of budget authority. We also reviewed the management control program as it relates to the overall objective. See Appendix A for a discussion of the scope and methodology and our review of the management control program as well as prior coverage related to the objectives.

A. Accuracy of Appropriations Received

DoD accurately reported appropriations received on the published FY 2004 DoD Agency-Wide SBR. During the audit, we identified nonmaterial errors on both the mid-year and year-end financial statements. However, the Defense Finance and Accounting Service (DFAS) made corrections totaling \$1 billion, which were reflected in the published FY 2004 DoD Agency-Wide SBR. In addition, the audit disclosed that the DoD Agency-Wide SBR included appropriations received for the Military Retirement Fund (MRF) and the Medicare Eligible Retiree Health Care Fund (MERHCF), twice. OMB was aware and approved of this duplication in reporting. However, at our request, DoD agreed to disclose the duplicate reporting in the footnotes to the FY 2004 DoD Agency-Wide Financial Statements. Therefore, no recommendations for corrective actions are warranted.

Appropriations Received

Year-End Review. For FY 2004, the DoD Agency-Wide SBR reported \$582 billion in appropriations received. Of that amount, we reviewed \$547.6 billion (94 percent). Of the \$34.4 billion not reviewed (6 percent), \$32.9 billion is primarily attributable to contributions made to and interest earned by the MRF and MERHCF. Independent public accounting firms under contract with the Department of Defense Office of Inspector General conducted separate audits on the MRF and MERHCF. Both funds received favorable audit opinions on the FY 2004 financial statements. Table 1 provides the audit results by DoD reporting entity.

Table 1. FY 2004 DoD Agency-Wide Appropriations Received
(in millions)

Reporting Subentity	Amount Reported	Amount Reviewed	Variance Over / (Under)
Army General Fund	\$149,559.9	\$149,547.7	
Navy General Fund	123,948.5	123,918.0	
Air Force General Fund	125,483.8	125,480.7	
USACE (Civil Works)	5,141.2	3,854.1	\$ 39.5
ODO General Funds	106,800.7	106,630.8	(169.6)
Army Working Capital Fund	219.3	219.3	
Navy Working Capital Fund	130.4	130.4	
Air Force Working Capital Fund	0	0	
ODO Working Capital Funds	3,369.8	3,369.8	(511.7)
MERHCF	25,100.3	16,260.0 *	
MRF	42,256.8	18,189.0 *	
Total	\$582,010.7	\$547,599.8	\$(641.8)

* We reviewed the Federal contributions for the annual unfunded liabilities (permanent indefinite appropriations) portion of the amount reported.

Misstatements Identified. Of the amounts reviewed on the year-end SBR, we identified \$555.7 million in misstatements and a potential misstatement of \$165.1 million. DFAS corrected misstatements of \$511.7 million.

ODO Working Capital Funds. During the audit, we determined that the appropriations received line for ODO Working Capital Funds was understated by \$511.7 million. The understatement was due to the unique nature of the FY 2005 Appropriations Act (which provided for additional war-related appropriations in FY 2004) and the timing for the allocation of those funds. We informed DFAS on November 3, 2004, of the misstatements. DFAS researched and agreed that the information was misstated and made appropriate corrections before the FY 2004 year-end financial statements were issued.

ODO General Funds. The ODO General Funds appropriations received line was understated by \$4.5 million and may have been understated by an additional \$165.1 million. (The sum of \$4.5 million and \$165.1 million is the \$169.6 million shown in Table 1.) An understatement of \$2.4 million resulted from DFAS inaccurately netting an enacted reduction against Appropriations Received (Line 1.a.) instead of recording it as required by OMB in Enacted Reductions (Line 6.) on the SBR. We did not determine the cause of the remaining \$2.1 million understatement.

The Defense Burdensharing Fund may have been understated by \$165.1 million. DFAS made unsupported adjustments to the appropriations received line to reconcile to the amount reported on the Treasury Combined Statement of Receipts, Outlays, and Balances. DFAS classified the difference as undistributed and did not resolve these differences. During the audit, we made observations about the documentation provided to substantiate the amounts reported for the DoD Education Benefits Fund, Voluntary Separation Incentive Fund, and the Defense Burdensharing Fund. (See Other Matters of Interest on Page 6.)

USACE (Civil Works). The \$39.5 million overstatement of the appropriations received line for USACE occurred because the USACE Finance Center misclassified \$39.8 million in net transfers in on Appropriations Received (Line 1.a.) instead of Net Transfers (Line 1.d.), and it erroneously reversed \$0.3 million initially recorded to increase appropriations received to the correct balance. The \$39.5 million overstatement of appropriations received was offset by an understatement of \$39.9 million in net transfers. The combined effect of the misstatements on budget authority was an understatement of \$0.4 million, which we did not consider material. These nonmaterial errors were not corrected because we were unable to resolve this discrepancy before the financial statements were issued.

As stated, DFAS made adjustments to correct a \$511.7 million understatement. Appropriations received on the FY 2004 SBR may still have been understated by \$130 million (.02 percent). The unresolved and uncorrected misstatements were not material to the FY 2004 DoD Agency-Wide SBR.

Correction to the Mid-Year Statements. Our review of the mid-year financial statements disclosed misstatements totaling \$549.6 million. DFAS had used estimates for transactions during March 2004 in order to satisfy the accelerated

OMB reporting requirements. In addition, misstatements occurred because appropriations received totals were reduced to reflect across the board reductions that DFAS should have shown in Enacted Reductions (Line 6.). In July and August 2004, we briefed the OUSD(C)/CFO and DFAS on the results of our mid-year review and DFAS made corrections to appropriations received in time to be reflected in the year-end financial statements.

Duplicate Reporting of Appropriations Received

Amounts reported as appropriations received, excluding interest earned, on the FY 2004 DoD Agency-Wide SBR for the MRF, MERHCF, DoD Education Benefits Fund, and the Voluntary Separation Incentive Fund were also reported as appropriations received by the Army, Navy, Air Force, and ODO General Funds. Table 2 shows the appropriated amounts reported twice on the SBR.

Contributing Entity	Receiving Entity			
	MRF	MERHCF	Education Benefits Fund ¹	VSI ^{1,2} Fund
Army General Fund	\$5,724.6	\$3,002.4	\$130.9	\$23.5
Navy General Fund	4,554.4	2,815.0	29.9	3.8
Air Force General Fund	3,791.8	2,101.3	43.7	27.8
ODO General Funds	18,189.0	16,260.0	0	0
Total	\$32,259.8	\$24,178.7	\$204.5	\$55.1

¹ Fund included as part of ODO General Funds.
² Voluntary Separation Incentive Fund

Each year, ODO General Funds receive permanent indefinite appropriations for payment to the MRF and the MERHCF. The appropriations are attributable for service rendered prior to October 1984 and October 1, 2002, respectively. These funds are immediately transferred to the MRF and the MERHCF. However, ODO General Funds as well as the MRF and the MERHCF report these funds on the SBR as appropriations received.

In addition, the Military Departments make contributions to the MRF, MERHCF, the DoD Education Benefits Fund, and the Voluntary Separation Incentive Fund from their annual military appropriation accounts. Both the contributing and the receiving entities report these funds on the SBR.

Because the SBR is a combining financial statement, DoD does not eliminate the double counting of those appropriations. We discussed the duplicate reporting of the appropriations with personnel from OMB, who stated that they approve of the duplicate reporting, and the current reporting procedures should not be changed.

We briefed personnel in OUSD(C)/CFO and DFAS on the need to explain in the notes to the financial statements that amounts reported by the ODO General Funds and the Army, Navy, and Air Force General Funds are also reported as appropriations received on the SBR for the MRF and the MERHCF. As a result of our suggestions, DoD included information in Note 21 to the financial statements describing the duplicate reporting. The note also stated that “OMB is aware and approves of this duplicate reporting. Ongoing discussions with OMB and the Department of the Treasury have resulted in a change for MERHCF so that this duplication will not occur in future reporting periods.”

Other Matters of Interest

During the audit, we made observations about the documentation DFAS provided to substantiate the amounts reported for the DoD Education Benefits Fund, Voluntary Separation Incentive Fund, and the Defense Burdensharing Fund.

DoD Education Benefits and Voluntary Separation Fund. The DoD Education Benefits Fund accumulates funds for transfer to the Department of Veterans Affairs to cover DoD’s share of education liabilities. The Voluntary Separation Incentive Fund accumulates amounts needed to finance liabilities accrued under the Voluntary Separation Incentive Program. DoD Regulation 7000.14-R “Financial Management Regulation” requires the Services to complete collection and disbursement transactions using an SF 1081 “Voucher and Schedule of Withdrawals and Credits.” The majority of the documentation that the Services submitted for the funds did not conform to the requirements of DoD Regulation 7000.14-R. In addition, we identified the following for the DoD Education Benefits Fund.

- Military Service approval of supporting documentation was not always evident.
- The method of allocating the contribution information at the Service level on the DFAS input sheet was not always clear.
- DFAS personnel did not verify and date some DFAS generated input sheets.

Defense Burdensharing Fund. The Defense Burdensharing Fund Contribution Account is used to accumulate contributions from any country or regional organization for compensation for local national employees of the DoD, military construction projects of the DoD, and supplies and services of the DoD. Contributions are currently made by Korea, Japan, and Kuwait. DFAS field activities forwarded approximately \$69.7 million in nonconforming contribution documentation to DFAS Indianapolis personnel. This documentation consisted primarily of emails that included an excel attachment with the contribution information. Because this documentation does not conform to the guidance in DoD Regulation 7000.14-R, we could not substantiate whether the \$69.7 million was collected for the Defense Burdensharing Fund Contribution Account.

Because our review was limited to appropriations received and the issues identified are not material to the overall objective, we are not making recommendations. However, we provided DFAS the results of our review in a separate memorandum, suggesting that it needs to develop standard operating procedures for documenting the funds.

B. Accuracy of Net Transfers of Budget Authority

DoD inaccurately reported net transfers of budget authority on the FY 2004 DoD Agency-Wide SBR. Specifically, DFAS misclassified \$1.4 billion transfers out from the Army Working Capital Fund because DFAS review procedures did not effectively verify accounting adjustments and resolve reporting inconsistencies. In addition, the USACE Finance Center misclassified \$39.9 million net transfers in because USACE review procedures did not effectively resolve reporting inconsistencies. Therefore, the negative \$519.3 million reported as net transfers of budget authority on the FY 2004 DoD Agency-Wide SBR was materially understated by \$1.5 billion. However, the effect of the misstatements on the SBR as a whole was not material because the understatements were offset by related overstatements on other lines of the SBR. Further, there will not be an associated impact to the FY 2005 SBR.

Net Transfers of Budget Authority

Transfers Reported for the Army Working Capital Fund. DFAS misclassified transfers out from the Army Working Capital Fund as transfers of current year appropriations (appropriation transfers) instead of transfers of unobligated balances (balance transfers). OUSD(C)/CFO instructed that DFAS record the transfers as balance transfers.

DFAS made journal voucher adjustments to reclassify transfer transactions for the Army Working Capital Fund, but did not obtain relevant support documentation reflecting formal approval for the specific type of transfer entered. DFAS incorrectly applied email guidance for one specific transfer transaction between the Army Working Capital Fund and the Defense Commissary Agency Working Capital Fund to all transfer transactions involving the Army Working Capital Fund. More stringent review procedures should help ensure copies of relevant supporting source documentation are obtained.

DoD Regulation 7000.14-R, volume 6B, chapter 7, states that information on the SBR should be consistent with budget execution information reported on the SF 133, and material differences should be fully explained in footnote disclosures for the SBR. A negative \$1.4 billion reported as Net Transfers (Line 1.d.) on the SBR for the Army Working Capital Fund was not shown on the corresponding lines of the SF 133 for the Army Working Capital Fund. DFAS reconciliation procedures identified this difference. However, DFAS did not resolve the difference because it relied on email guidance; and therefore, believed that the SBR was correct. Review procedures should be enhanced to enable DFAS to resolve reporting inconsistencies.

Transfers Reported for the USACE. As previously discussed in Finding A, the USACE Finance Center misclassified \$39.8 million in net transfers in on the appropriations received line. In addition, the USACE Finance Center

misclassified \$0.1 million in net transfers out on Net Transfers (Line 1.d.) instead of Net Transfers, Actual (Line 2.b.) because the USACE Finance Center did not resolve differences between the SBR and SF 133s prior to issuance of the SBR. We discussed differences between the SBR and SF 133s with the USACE on November 30, 2004. USACE personnel stated that they recorded the transfers as appropriations to agree with Treasury reports and subsequently sought instruction from the Treasury and OMB on the proper reporting of transfers. However, instruction was received too late to correct the SBR before it was issued. As a result, amounts reported as Net Transfers (Line 1.d.) on the SBR did not correspond to the SF 133s. Review procedures should be enhanced to enable USACE to resolve reporting inconsistencies prior to issuing the financial statements.

Recommendations and Management Comments

B.1. We recommend that the Director of the Defense Finance and Accounting Service in Indianapolis strengthen review procedures for accounting adjustments to ensure relevant documentation is obtained to accurately and fully support accounting adjustments.

Management Comments. The Director of Accounting Services for Army at Defense Finance and Accounting Service Indianapolis concurred with the recommendation and stated that Defense Finance and Accounting Service Indianapolis will institute additional review procedures to ensure that no journal voucher entry contradicts procedures or guidance issued for reporting the information on the SF 133 Report on Budget Execution and Budgetary Resources. Further, review procedures will ensure that all journal vouchers contradicting original guidance are accompanied by either Office of the Secretary of Defense or Department of Treasury guidance directing that an adjustment be made rather than relying on unofficial Defense Finance and Accounting Service guidance. The estimated completion date was May 1, 2005.

B.2. We recommend that the Director of the Defense Finance and Accounting Service in Indianapolis and the Commander of the U.S. Army Corps of Engineers strengthen review procedures for financial statement reporting to ensure that reporting inconsistencies are researched and resolved prior to issuing the financial statements.

Management Comments. The Director of Accounting Services for Army at Defense Finance and Accounting Service Indianapolis concurred with the recommendation and stated that Defense Finance and Accounting Service Indianapolis will institute an additional review of the Statement of Budgetary Resources to SF 133 Report on Budget Execution and Budgetary Resources reconciliation before releasing reports as final. The estimated completion date is August 1, 2005.

The Commander of the U.S. Army Corps of Engineers concurred with the recommendation stating that the U.S. Army Corps of Engineers Finance Center will strengthen review control procedures by instituting line by line reconciliation

between the Statement of Budgetary Resources and the SF 133 Report on Budget Execution and Budgetary Resources. The estimated completion date is August 31, 2005.

Appendix A. Scope and Methodology

We are not expressing an opinion on the DoD Agency-Wide Financial Statements or the subject line items that we are concluding on. Our audit was designed to determine whether the amounts reported for appropriations received and net transfers at the department level were accurately reported for FY 2004. Our audit did not focus on procedures and controls over the reporting or the compilation of amounts reported on the financial statements but instead focused on verifying outputs to source documentation at the departmental level.

To accomplish our objective, we reviewed the following FY 2004 appropriation acts:

- Public Law 108-087, “Department of Defense Appropriations Act, 2004,”
- Public Law 108-132, “Military Construction Appropriations Act, 2004,”
- Public Law 108-106, “Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, 2004,”
- Public Law 108-199, “Consolidated Appropriations Act, 2004,”
- Public Law 108-137, “Energy and Water Development Appropriations Act, 2004,” and
- Public Law 108-287, “Department of Defense Appropriations Act, 2005.”

We reviewed 100 percent of the amounts enacted for FY 2004 by appropriations acts. In addition, we reviewed Federal contributions for the annual unfunded liabilities (permanent indefinite appropriations) credited to the MRF and MERHCF. Finally, we judgmentally selected three special and trust funds for review of contribution documentation, including cash collection vouchers; contribution vouchers from the Military Services; and Department of the Treasury reports—DoD Education Benefits Fund, Voluntary Separation Incentive Fund, and the Defense Burdensharing Fund, which are included in the ODO General Funds.

Additionally, we reviewed FY 2004 treasury warrants and nonexpenditure transfers SF 1151s. We met with and/or contacted personnel from the OUSD(C)/CFO, Department of the Army, Department of the Navy, Department of the Air Force, USACE, DFAS, and OMB. We evaluated amounts reported and supporting documentation against OMB Bulletin 01-09, “Form and Content of Agency Financial Statements,” September 25, 2001; OMB Circular No. A-11, “Preparation, Submission, and Execution of the Budget,” July 2003; DoD Financial Management Regulation 7000.14-R, August 31, 2004.

We performed this audit from March 2004 through February 2005 in accordance with generally accepted government auditing standards.

Use of Computer-Processed Data. We used computer-processed data contained within the Defense Departmental Reporting System and Department of Treasury Governmentwide Accounting system to perform this audit. However, we did not rely on the processes to compile the data or controls over the data derived. We compared Defense Departmental Reporting System outputs to source documentation to conclude on the accuracy and reliability of appropriations received and net transfers reported on the DoD Agency-Wide Financial Statements for FY 2004 year-end.

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.

Management Control Program Review

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

Scope of the Review of the Management Control Program. We reviewed the adequacy of DFAS management controls over reporting the line items, appropriations received and net transfers of budget authority, on the SBR. Because we did not identify a material weakness, we did not assess management’s self-evaluation.

Adequacy of Management Controls. DFAS management controls were adequate in that we identified no material management control weaknesses as defined by DoD Directive 5010.38.

Prior Coverage

During the last 5 years, the Air Force Audit Agency has issued one report discussing appropriations received and net transfers. Unrestricted Air Force Audit Agency reports can be accessed over the Internet at <http://www.afaa.hq.af.mil/domainck/mositemap.shtml#pr>.

Air Force Audit Agency

Air Force Audit Agency Report No. 01053012, “Revenue and Other Financing Sources – Resources Provided, Fiscal Year 2000,” August 24, 2001.

Appendix B. Report Distribution

Office of the Secretary of Defense

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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
WASHINGTON, D.C. 20314-1000

REPLY TO
ATTENTION OF:

CEIR: 36-2

April 14, 2005

Memorandum for Inspector General, Department of Defense

SUBJECT: DODIG Report, "Appropriations Received and Net Transfers on the FY 2004 DOD Agency-Wide Financial Statement."
Project No. D2004FA-0117

USACE comments on the recommendation B2 follows:

Recommendation B2: We recommend that the Director of the Defense Finance and Accounting Service in Indianapolis, and The Commander of the U.S. Army Corps of Engineers strengthen review procedures for financial statement reporting to ensure that reporting inconsistencies are researched and resolved prior to issuing the financial statements.

Concur:

The USACE Finance Center will strengthen review control procedures by instituting line by line reconciliation between the statement of Budgetary Resources and the SF 133. The estimated completion date for this action is 31 August 2005.

My point of contact for this action is Mr. Imtiaz Badar (202) 761-1987.

FOR THE COMMANDER

A handwritten signature in black ink, appearing to read "D. Ripp".

DONALD J. RIPP
CHIEF AUDIT EXECUTIVE
U.S. Army Corps of Engineers

Defense Finance and Accounting Service Indianapolis Comments



DEFENSE FINANCE AND ACCOUNTING SERVICE
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DFAS-ADL/IN

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Department of Defense Draft Audit Report, "Appropriations Received and Net Transfers on the FY 2004 DoD Agency-Wide Financial Statements," (Project No. D2004FA-0117), dated February 25, 2005, Recommendations B1 and B2

Accounting Services, Army is providing management comments for recommendations contained in the Draft Audit Report for "Appropriations Received and Net Transfers on the DoD Agency-Wide Financial Statements."

Recommendation B1: We recommend that the Director of the Defense Finance and Accounting Service in Indianapolis strengthen review procedures for accounting adjustments to ensure relevant documentation is obtained to accurately and fully support accounting adjustments.

Management Comments: Stakeholder: Gerald Davenport, 317-510-7132. Concur - DFAS-IN will institute additional review procedures for journal vouchers impacting the Statement of Budgetary Resources to ensure any entry does not contradict any procedures or guidance issued for reporting the information on the SF 133. In the example cited in the report, DFAS-IN believed that subsequent guidance issued after the transfer had been processed at the Treasury took precedent over the original guidance that accompanied the SF 1151 Non-Expenditure Transfer of Budgetary Resources. Management will ensure that all journal vouchers of this type will be accompanied by either OSD or Treasury guidance directing that an adjustment be made, rather than rely on unofficial DFAS guidance. Internal DFAS-IN journal voucher guidance will be updated to include a requirement that this guidance must be attached to the journal voucher before it is sent to the appropriate approving official.

Estimated Completion Date: May 1, 2005

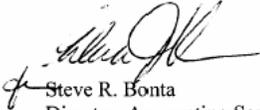
Recommendation B2: We recommend that the Director of the Defense Finance and Accounting Service in Indianapolis, and the Commander of the U.S. Army Corps of Engineers strengthen review procedures for financial statement reporting to ensure that reporting inconsistencies are researched and resolved prior to issuing the financial statements.

Management Comments: Stakeholder: Gerald Davenport, 317-510-7132. Concur - DFAS-IN will institute an additional Audited Financial Statement management review of the Statement of Budgetary Resources to the SF 133 reconciliation. This additional review will ensure that the reports are not released as final until this review has taken place.

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Estimated Completion Date: August 1, 2005

My point of contact is Gerald Davenport, Audited Financial Statements Division,
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Steve R. Bonta
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