

June 27, 2005



# Financial Management

Departmental Expenditure Reporting  
at Defense Finance and Accounting  
Service Indianapolis  
(D-2005-087)

Department of Defense  
Office of the Inspector General

Constitution of  
the United States

A Regular Statement of Account of the Receipts and Expenditures of all public Money shall be published from time to time.

Article I, Section 9



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

June 27, 2005

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE  
(COMPTROLLER)/CHIEF FINANCIAL OFFICER  
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING  
SERVICE

SUBJECT: Audit of Departmental Expenditure Reporting at Defense Finance and Accounting Service Indianapolis (Report No. D-2005-087)

We are providing the attached final report for your information and use. No written response to this report is required.

**Who Should Read This Report and Why?** DoD and Army financial management personnel responsible for promoting proper financial management and preparing financial statements should read this report. The report discusses whether the Defense Finance and Accounting Service (DFAS) Indianapolis consistently and accurately compiled expenditure data for the departmental statements submitted to the U.S. Treasury.

**Background.** DFAS Indianapolis Expenditures Division collects, adjusts, and compiles financial data for all disbursements and collections made by the DFAS Indianapolis network. Each month, the Division receives statements of accountability, transactions, and interfund from Army disbursing stations and other central accounting sites; edits the data; makes departmental adjustments; and prepares departmental statements of accountability, transactions, and interfund for Treasury submission. DFAS Indianapolis processed and reported disbursements of about \$15.8 billion in 456 unique appropriations for November 2004.

**Results.** The DFAS Indianapolis Expenditures Division accurately compiled expenditure data from field organizations and other sources for the November 2004 departmental statements of accountability, transactions, and interfund. We identified problems with the supportability of some adjustments, but the Treasury Reports Branch either provided adequate explanations or agreed to take the corrective actions we suggested during the audit. We determined that all auxiliary information could be traced to a specific source. Overall, DFAS management controls were adequate in that we identified no material management control weaknesses in the compilation of expenditure data. (See the attached slides numbered 7-10 for details.)

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. Carmelo G. Ventimiglia at (317) 510-3855 (DSN 699-3855) or Mr. Paul C. Wenzel at (317) 510-3859 (DSN 699-3859). See slide 17 for the report distribution. The audit team members are listed on slide 18.

By direction of the Deputy Inspector General for Auditing:



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

Attachment

# Audit of Departmental Expenditure Reporting at DFAS Indianapolis

Project No. D2005-D000FI-0085.000



**Report No. D-2005-087**

**June 27, 2005**

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*A regular statement and account of the receipts and expenditures of all public money shall be published from time to time.*

Article I, Section 9 of the Constitution of the USA



## Audit Background

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The Defense Finance and Accounting Service Indianapolis Expenditures Division collects, adjusts, and compiles financial data for all disbursements and collections made by the DFAS Indianapolis network.

Each month, the Division:

- receives statements of accountability, transactions, and interfund from Army disbursing stations and other central accounting sites;
- edits the data;
- makes departmental adjustments; and
- prepares departmental statements of accountability, transactions, and interfund for Treasury submission.



## Audit Background

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The consolidated Treasury Tape (SF 1220) summarizes, classifies, and reports all receipts (or collections) and outlays (or disbursements) made by the DFAS Indianapolis network in a Treasury-prescribed format to the U.S. Treasury on a monthly basis. The Treasury Tape consists of the Statement of Accountability (SF 1219), Statement of Transactions (SF 1329), and Statement of Interfund (DD Comp 1400) at the Department of the Army level.



## Audit Background

For November 2004, DFAS Indianapolis:

- Processed and reported disbursements equaling about \$15.8 billion in 456 unique appropriations.
- Processed and reported about \$12.0 billion in confirmed deposits with the U.S. Treasury.
- Processed and reported about \$2.6 billion in interfund transactions.
- Prepared 44 journal vouchers (debits of \$134.0 billion and credits of \$101.3 billion) affecting expenditure reporting operations. Of these, 10 journal vouchers (debits and credits of about \$237,000 each) were reported on the monthly Treasury submission for November 2004.



# Audit Objectives

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Determine whether the Defense Finance and Accounting Service (DFAS) Indianapolis accurately compiled expenditure data from field organizations and other sources for the departmental statements of accountability and transactions submitted to the U.S. Treasury.

Evaluate the management control program as it relates to the audit objective.



## Conclusion

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The DFAS Indianapolis Expenditures Division accurately compiled expenditure data from field organizations and other sources for the November 2004 departmental statements of accountability, transactions, and interfund.



## Audit Results

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- We deconstructed the November 2004 Treasury Tape to ensure that it matched field-submitted data, plus related edits and corrections. We found that the Treasury Tape accurately and completely traced back to the source documents, plus data corrections initiated by DFAS Indianapolis. No differences were noted for any of the lines on the Treasury Tape.



## Audit Results (continued)

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- We reviewed all 44 November adjusting journal vouchers prepared within the Expenditures Division or affecting the Treasury Tape, plus two Treasury Supplemental adjustments.
- We found that there were problems in the supportability of the values presented on the face of the journal vouchers. Of the 44 journal vouchers with debits of \$134.0 billion and credits of \$101.3 billion, we identified 10 unsupported journal vouchers with debits of \$33.7 billion and credits of \$1.0 billion. After we reviewed the journal vouchers, DFAS either provided adequate explanations to better support the vouchers or agreed to perform suggested corrective actions.



## Audit Results (continued)

The majority of the total unsupported amount came from two journal vouchers:

- One voucher had \$32.8 billion in debits and \$78 million in credits. This voucher is prepared monthly to bring the Balance Forward into agreement with the Treasury Trial Balance. We review the September voucher every year as part of our financial statement compilation work. DFAS can adequately support this voucher. We classified this voucher as unsupported because it did not contain the level of detail typically found in the September voucher.
- The other voucher had \$0.9 billion in debits and credits. This voucher was part of the suspense account write-off package presented to DFAS in November 2004.



## Audit Results (continued)

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- In addition, we considered the two Treasury Supplemental adjustments unsupported. These two adjustments had an absolute value of \$2,626,886. However, they did not affect the values presented on the Treasury Tape.
- We examined auxiliary information on the Treasury Tape and the procedures to include that information on the Treasury Tape. We found that all information could be traced to a specific source and that it was generally accurate. The inaccuracies we noted have since been corrected.



## Scope and Methodology

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We reviewed the DFAS Indianapolis processes for compiling expenditure data from field organizations and other sources for the departmental statements of accountability and transactions submitted to the U.S. Treasury. We:

- Traced disbursing station reports to the monthly report submitted to the U.S. Treasury for November 2004.
- Reviewed the related statements of accountability, transactions, and interfund.
- Analyzed adjustments.
- Analyzed the preparation of the monthly report.
- Traced additional information included in the report to its source.



## Scope and Methodology (continued)

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We reviewed the Treasury Tape preparation process only for November 2004. The preparation of the Treasury Tape is a monthly process that does not change from month-to-month. Therefore, we could limit the scope of our audit work without affecting our audit conclusions.

We conducted the audit from December 2004 through May 2005, in accordance with generally accepted government auditing standards.



## Computer-Processed Data

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During the audit, we used data produced by the Headquarters Accounting and Reporting System a non-compliant legacy system scheduled for replacement. However, the audit work was process-based, and our conclusions did not rely on the transaction values produced by the system and presented on the Treasury Tape.



## GAO High-Risk Area

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



## Management Control Program

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DoD regulations require organizations to implement a comprehensive system of management controls that provide reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

We examined the existence of the management control program within the Expenditures Division. Because the FY 2005 program still in progress, we only examined the FY 2004 program. We found that the management control program was in place and operating within the DFAS Indianapolis Expenditures Division for FY 2004. We identified no material management control weaknesses in the compilation of expenditure data.



## Prior Coverage

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During the last five years, the U.S. Army Audit Agency issued one report relating to the audit objective.

- U.S. Army Audit Agency Report No. A-2005-0127-ALW, “Validation of the Army’s Fund Balance with Treasury,” March 10, 2005.



# Report Distribution

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We will provide a copy of this report to the:

Under Secretary of Defense (Comptroller)/Chief Financial Officer

Director, Defense Finance and Accounting Service

Director, Defense Finance and Accounting Service  
Indianapolis



# Audit Team

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