

Audit



Report

COMPILATION OF THE FY 1999 FINANCIAL STATEMENTS
FOR OTHER DEFENSE ORGANIZATIONS-GENERAL FUNDS

Report No. D-2000-153

June 23, 2000

Office of the Inspector General
Department of Defense

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Acronyms

CFO	Chief Financial Officer
DFAS	Defense Finance and Accounting Service
GLAC	General Ledger Account Code
IG	Inspector General
PP&E	Property, Plant, and Equipment
WHS	Washington Headquarters Services



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June 23, 2000

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE
DIRECTOR, DEFENSE INFORMATION SYSTEMS
AGENCY
DIRECTOR, DEFENSE THREAT REDUCTION AGENCY
DIRECTOR, DOD EDUCATION ACTIVITY
DIRECTOR, TRICARE MANAGEMENT ACTIVITY
DIRECTOR, WASHINGTON HEADQUARTERS
SERVICES
PRESIDENT, UNIFORMED SERVICES UNIVERSITY OF
THE HEALTH SCIENCES

SUBJECT: Audit Report on Compilation of the FY 1999 Financial Statements for
Other Defense Organizations-General Funds (Report No. D-2000-153)

We are providing this report for your review and comment. We received comments from all addressees except for the Tricare Management Activity. All comments received were responsive, except for the comments received from the DoD Education Activity. We considered all comments received in preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. As a result of management comments, we revised Recommendation A.2. and added Recommendation A.1.a. to the Director, Defense Finance and Accounting Service. We request that the Director, DoD Education Activity, provide additional comments on Recommendation A.2., the Director, Defense Finance and Accounting Service, provide comments on Recommendation A.1.a, and the Director, Tricare Management Activity, respond to the final report by July 24, 2000.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Charles J. Richardson at (703) 604-9582 (DSN 664-9582) (crichardson@dodig.osd.mil) or Mr. Marvin L. Peek at (703) 604-9587 (DSN 664-9587) (mpeek@dodig.osd.mil). See Appendix F for the report distribution. The audit team members are listed inside the back cover.

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Office of the Inspector General, DoD

Report No. D-2000-153

June 23, 2000

(Project No. D2000FA-0043.001)

Compilation of the FY 1999 Financial Statements for Other Defense Organizations-General Funds

Executive Summary

Introduction. This report is the second in a series on the compilation of the FY 1999 financial statements for Other Defense Organizations-General Funds by the Defense Finance and Accounting Service (DFAS) Center for Sustaining Forces-Indianapolis. We performed the audit in response to the Chief Financial Officers Act of 1990, which requires DoD and other Government agencies to prepare consolidated financial statements. The FY 1999 DoD Agency-Wide financial statements include financial statements for a reporting entity entitled "Other Defense Organizations-General Funds." The entity represents a consolidation of financial information from various Defense organizations and funds that use the Treasury Index 97 symbol. The FY 1999 Other Defense Organizations-General Funds financial statements reported \$44 billion in assets, \$215.8 billion in liabilities, and \$53.1 billion in budget authority. These dollar values represented 7 percent of assets, 22 percent of liabilities, and 16 percent of budget authority reported on the FY 1999 DoD Agency-Wide financial statements.

Objectives. The primary objective was to determine whether the DFAS Center for Sustaining Forces-Indianapolis consistently and accurately compiled financial data from supporting accounting offices and other sources for the FY 1999 Other Defense Organizations-General Funds financial statements. Specifically, we evaluated whether the compilation of the financial information was complete and whether the footnotes fully disclosed material discrepancies and additional information relevant to the financial statements. Appendix A discusses the audit scope and methodology. Our review of internal controls was reported in Inspector General, DoD, Report No. D-2000-103, "Internal Controls and Compliance With Laws and Regulations for the FY 1999 Financial Statements of the Other Defense Organizations-General Funds," March 16, 2000.

Results. The DFAS Center for Sustaining Forces-Indianapolis showed improved efficiency in producing the FY 1999 Other Defense Organizations-General Funds financial statements. However, the process used to consolidate, adjust, compile, and report financial information needed further improvements to ensure that the financial statements were accurate and fully supported.

At least \$3.4 billion in unexplained abnormal balances and \$176.3 million in duplicate balances were included in trial balances used to prepare the FY 1999 Other Defense Organizations-General Funds financial statements. The consolidation process used by the DFAS Center for Sustaining Forces-Indianapolis did not effectively identify problems and coordinate corrective actions before trial balances were compiled into the financial statements (finding A).

At least \$179.9 billion of year-end departmental accounting adjustments was not supported; \$2.9 billion in differences from prior year statements was not explained; and

\$3 billion in abnormal balances included in normal balances was not disclosed. Also, \$3.2 billion in general property, plant, and equipment reported on the Balance Sheet was procured from funds that had been suballotted to the Military Departments and would normally be reported on their financial statements (finding B).

As a result, the FY 1999 Other Defense Organizations-General Funds financial statements were not reliable and contributed to problems with the reliability of the FY 1999 DoD Agency-Wide financial statements.

Summary of Recommendations. We recommend that the Director, DFAS Center for Sustaining Forces-Indianapolis, revise year-end guidance to ensure footnote reporting consistency by the accounting offices, establish and implement procedures to review quarterly trial balances, correct the problems identified, remove duplicate balances, and correctly report depreciation expense and accumulated depreciation. We also recommend that the DFAS Centers and Other Defense Organizations correct abnormal balances, if appropriate, before submitting quarterly trial balances, and explain abnormal balances that are not corrected. In addition, we recommend that Director, DFAS, develop a dedicated system for preparing the financial statements for Other Defense Organizations-General Funds and specific procedures for adjusting and reviewing property, plant, and equipment.

Management Comments. We received responses from all organizations except the Tricare Management Activity. DFAS is establishing procedures for reviewing trial balances submitted by Other Defense Organizations and will notify Other Defense Organizations of erroneous data, late trial balance submissions, and request corrections as appropriate. DFAS is also reviewing the adequacy of staffing, and will make adjustments as necessary. DFAS has prepared flowcharts and narrative describing the sequence of actions, adjusting entries, and closing entries for the consolidation and compilation process, and will issue supplementary guidance on any additional procedures associated with the compilation of equipment and related depreciation. In addition, DFAS will include unique compilation codes needed for Other Defense Organizations in the reporting module to be used to prepare the FY 2000 financial statements.

Except for the DoD Education Activity, the Other Defense Organizations concurred with the recommendations and plans to initiate corrective actions to ensure that abnormal balances are corrected or explained, as appropriate. Both the DoD Education Activity and the Washington Headquarters Services also responded that in some instances, abnormal balances may be correct. The DoD Education Activity nonconcurred with the recommendations, stating that because of their accounting systems, reviewing their trial balances may not be feasible or cost effective. See the Finding section for a discussion of management comments, and the Management Comments section for the text of the comments.

Audit Response. Management comments, except those received from the DoD Education Activity, were responsive to the recommendations. Based on comments by the DoD Education Activity and the Washington Headquarters Services, we clarified the finding and recommendation to correct abnormal balances to indicate that corrections should be made, if appropriate. We also added a recommendation to DFAS to provide guidance on requirements for footnotes to the trial balances. We request that the Director, DoD Education Activity, provide additional comments, and the Director, DFAS, and the Director, Tricare Management Activity, provide comments on the final report by July 24, 2000.

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Background

Reporting Requirements. 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, requires DoD to prepare annual audited financial statements. The Inspector General (IG), DoD, is not required to render a separate opinion on the financial statements of Other Defense Organizations-General Funds. However, information from audits of the financial statements of Other Defense Organizations-General Funds contributed to the disclaimer of audit opinion on the FY 1999 DoD Agency-Wide financial statements.

Other Defense Organizations. Other Defense Organizations represent a consolidation of financial information from various Defense organizations and funds that use the Treasury Index 97 symbol. The FY 1999 DoD Agency-Wide financial statements include two columns for Other Defense Organizations: an Other Defense Organizations-Working Capital Funds column, which included the financial activity of working capital funds not connected with the Military Departments, and an Other Defense Organizations-General Funds column, which included the financial activity of all remaining organizations and funds using the Treasury Index 97 symbol. This audit focused on Other Defense Organizations-General Funds, which reported \$53.1 billion in budget authority in the FY 1999 financial statements. (In this report, Other Defense Organizations refers to the Other Defense Organizations-General Funds reporting entity.) Appendix C lists the Other Defense Organizations-General Funds.

Defense Finance and Accounting Service Responsibilities. DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 6B, "Form and Content of the Department of Defense Financial Statements," October 1999, requires the Defense Finance and Accounting Service (DFAS) to ensure that the preparation of financial reports is consistent, timely, and auditable, and that controls are in place to ensure the accuracy of the reports. Beginning in FY 1996, the DFAS Indianapolis Center, Indianapolis, Indiana, was responsible for consolidating financial data for Other Defense Organizations, compiling the data, and preparing the financial statements. During FY 2000, the DFAS Indianapolis Center was reorganized into the DFAS Center for Operational Forces-Indianapolis and the DFAS Center for Sustaining Forces-Indianapolis. The Chief Financial Officers Act of 1990 reporting responsibilities are under the purview of the DFAS Center for Sustaining Forces, hereafter referred to as the DFAS Indianapolis Center.

In compiling and preparing the financial statements for Other Defense Organizations, the DFAS Indianapolis Center did the following:

- obtained fiscal year-end trial balances and other financial information from the supporting accounting offices,
- consolidated the financial information received,

-
- made year-end departmental adjustments to post financial data to the accounting records and adjust trial balances, and
 - used a six-stage process to compile the financial statements (see Appendix D).

Reporting Policy. Other Defense Organizations are required to use the DoD form and content guidance shown in DoD Regulation 7000.14-R, volume 6B. The guidance implements Office of Management and Budget Bulletin No. 97-01, "Form and Content of Agency Financial Statements," October 16, 1996, as amended November 20, 1998. DFAS prepared the six principal statements for Other Defense Organizations, as required by Office of Management and Budget Bulletin No. 97-01: the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, Statement of Financing, and Statement of Custodial Activity.

Objectives

The primary objective was to determine whether the DFAS Indianapolis Center consistently and accurately consolidated and compiled financial data from supporting accounting offices and other sources for the FY 1999 Other Defense Organizations-General Funds financial statements. Specifically, we evaluated whether the compilation of financial information for the FY 1999 Other Defense Organizations-General Funds financial statements was complete, and whether the footnotes fully disclosed material discrepancies and additional information relevant to the financial statements. Appendix A discusses the audit scope and methodology. Our review of internal controls is discussed in IG, DoD, Report No. D-2000-103, "Internal Controls and Compliance With Laws and Regulations for the FY 1999 Financial Statements for Other Defense Organizations-General Funds," March 16, 2000.

A. Consolidation of Financial Data

Year-end trial balances for Other Defense Organizations included \$3.4 billion of abnormal balances, \$176.3 million of duplicate balances, and balances that were not consistent with corresponding SF 133s, "Reports on Budget Execution." The condition occurred because accounting offices that support Other Defense Organizations did not correct abnormal balances as appropriate, include footnotes to explain abnormal balances, remove duplicate balances, or ensure that trial balances matched "Reports on Budget Execution." The condition also occurred because the DFAS Indianapolis Center did not:

- establish detailed procedures to review and improve quarterly and year-end trial balances,
- identify abnormal and duplicate balances and request that accounting offices submit corrected trial balances,
- identify differences between trial balances and "Reports on Budget Execution" and coordinate corrections with supporting accounting offices, and
- provide adequate staff to consolidate the financial data effectively.

As a result, the FY 1999 Other Defense Organizations-General Funds financial statements contributed unreliable financial data to the FY 1999 DoD Agency-Wide financial statements.

Trial Balances

The DFAS Indianapolis Center prepared the FY 1999 Other Defense Organizations-General Funds financial statements from financial data supplied by the accounting offices and DFAS Centers supporting the Other Defense Organizations. The data supplied by the accounting offices included material abnormal balances, duplicate balances, and balances that were not internally consistent.

Abnormal Balances. The accounting offices supporting Other Defense Organizations submitted trial balances to the DFAS Indianapolis Center that contained \$3.4 billion of abnormal balances in 93 separate general ledger account codes (GLACs) and were not explained in footnotes, as required.¹ Of the 93 GLACs, 8 represented material abnormal balances totaling \$2.4 billion, as shown in Table 1.

¹DFAS Indianapolis Center "Fiscal Year 1999 Year-End Instructions for Defense Agencies," June 9, 1999, required preparers of reports to "properly footnote, with a detailed explanation, all abnormal balances" on the trial balance.

**Table 1. Absolute Value of Material Abnormal Balances
Submitted to DFAS Indianapolis Center**
(millions)

<u>General Ledger Account*</u>	<u>Balance</u>
Accounts Receivable-Government-Current	\$ 140.1
Appropriated Capital Funding-Canceled Payables	161.6
Allotted Funded Reimbursement Authority-Current Period	204.5
Accounts Payable-Government-Current	1,167.2
Accounts Payable-Public-Current	212.9
Appropriated Capital	201.8
Appropriated Capital Used	144.6
Other Services-Government	<u>169.9</u>
Total	\$ 2,402.6

*The accounts shown are nonstandard general ledger accounts that the DFAS Indianapolis Center converts to U.S. Government Standard General Ledger accounts during compilation.

An account balance is abnormal when the reported balance does not comply with the normal debit or credit balance established in the general ledger chart of accounts. For example, Accounts Receivable-Government-Current, shown in Table 1, normally has a debit balance; therefore, a credit balance is an abnormal balance, which should be explained because it represents an abnormal financial condition.

Although some abnormal balances may be appropriate, the accounting office submitting the abnormal balance should explain the cause of the abnormal balance in footnotes to the trial balances.

Year-end trial balances containing \$3.4 billion of abnormal balances were submitted by 11 accounting offices, as shown in Table 2. All of these organizations should correct abnormal balances, if appropriate, and provide explanatory footnotes to future trial balance submissions for all abnormal balances. Also, the DFAS Indianapolis Center should revise year-end guidance to include data and format requirements for explanatory footnotes to trial balances to ensure reporting consistency.

Table 2. Accounting Offices and Centers That Submitted Abnormal Balances
(millions)

<u>Accounting Office or Center</u>	<u>Balance</u>
DFAS Cleveland Center	\$ 924.9
DFAS Columbus Center	690.8
DFAS Indianapolis Center	485.7
DFAS Denver Center	368.4
Defense Information Systems Agency	282.3
Defense Agency Financial Service (Indianapolis)	215.8
Defense Accounting Directorate (Washington Headquarters Services [WHS])	159.2
DoD Dependent Schools	127.7
Tricare Management Activity-Aurora	102.1
Defense Threat Reduction Agency	13.3
Uniformed Services University of the Health Sciences	7.6
Total	\$ 3,377.8

Of the 11 accounting offices, 9 submitted trial balances for more than 29 entities and subentities containing individual GLACs that reported abnormal balances greater than \$10 million (see Appendix E for a list of the entities). Accounting offices did not provide the DFAS Indianapolis Center's Chief Financial Officer (CFO) Team (the CFO Team, Indianapolis) with detailed footnotes explaining the causes of the abnormal balances or actions taken to correct the abnormal balances. Further, the CFO Team, Indianapolis, did not have procedures in place to analyze trial balances submitted by the accounting offices throughout the year, as recommended in IG, DoD, Report No. 99-006, "Consolidation Process for FY 1997 Financial Statements for Other Defense Organizations," October 6, 1998. If the CFO Team, Indianapolis, had reviewed the trial balances on a quarterly basis, they could have identified abnormal balances, coordinated with the accounting offices that submitted the abnormal balances to determine the causes, and improved the quality of the data before year's end. The CFO Team, Indianapolis, included the abnormal balances when compiling the financial statements for Other Defense Organizations without questioning the validity of these balances or attempting to remove or explain them. Stringent reporting deadlines at year's end did not permit the CFO Team, Indianapolis, to determine the validity of the data.

Duplicate Balances. Trial balances used to compile the financial statements of Other Defense Organizations contained 48 records totaling \$176.3 million in

which the GLAC, entity code, appropriation, and balances were duplicated. For example, the DFAS Cleveland Center submitted a trial balance for funds suballocated by the Joint Chiefs of Staff to the Navy (limit 1204²), which twice reported a balance of \$10,709,800.34 for “Funds with Treasury” (GLAC 1013). The accounting offices and the CFO Team, Indianapolis, could not explain why the duplicate balances existed. The CFO Team, Indianapolis, did not have procedures to identify the duplications and subsequently included those amounts in the financial statements. To improve the quality of the financial statements, the CFO Team, Indianapolis, should have procedures in place to review data files quarterly and to identify and remove duplicate balances at year’s end.

Inconsistent Balances. As required by DoD Regulation 7000.14-R, volume 6, “Reporting Policy and Procedures,” February 1996 (with changes through 1998), the accounting offices and DFAS Centers supporting Other Defense Organizations submitted trial balances and “Reports on Budget Execution.” However, the data did not agree. For example, the trial balances from Army organizations receiving suballotments from the Ballistic Missile Defense Organization (limit 2501) showed \$12.5 billion in unexpended appropriations; however, the “Reports on Budget Execution” showed \$0.9 billion, a difference of \$11.6 billion. Because the trial balances and “Reports on Budget Execution” did not match, the CFO Team, Indianapolis, made unsupported year-end departmental accounting entries to force the reports to agree (see finding B).

Consolidation Process

The CFO Team, Indianapolis, was understaffed for consolidating the trial balances submitted by accounting offices supporting the Other Defense Organizations. Also, supporting accounting offices did not submit the required quarterly trial balances, and the CFO Team, Indianapolis, did not receive year-end trial balances promptly.

Staffing. The DFAS Indianapolis Center concurred with a previous recommendation in IG, DoD, Report No. 99-006 to increase staffing to “review and reconcile quarterly trial balances and update departmental accounting records”; however, the DFAS Indianapolis Center did not allocate additional staff to perform that function. During the year and at year’s end, one employee was responsible for reviewing and consolidating the trial balances. The CFO Team, Indianapolis, did not review the trial balance data during the year, and at year’s end, the singular responsible employee did not have adequate time to review trial balances, identify problematic data, coordinate with accounting offices, and improve the quality of the trial balances. Although DFAS headquarters contracted with a certified public accounting firm in FY 1999 to provide support to the DFAS Centers, that support was limited to compilation

²Appropriation limits are the four-digit suffixes to the U.S. Treasury account number (basic symbol) that identify a subdivision of funds, restrict the amount or use of funds for a certain purpose, or identify sub-elements within the account for management purposes. For Other Defense Organizations, the appropriation limit usually shows the organization or fund for which the appropriation provides funding.

processes. The DFAS Indianapolis Center should provide additional contractor or in-house support to conduct an effective quarterly and year-end consolidation process.

Quarterly Trial Balances. IG, DoD, Report No. 99-006 recommended that the DFAS Indianapolis Center reallocate personnel to review and reconcile quarterly trial balances and update departmental records. The CFO Team, Indianapolis, did not review the quarterly trial balances as recommended. All accounting offices did not submit quarterly trial balances in FY 1999; however, IG, DoD, Report No. D-2000-103 showed that the number of accounting offices submitting quarterly trial balances was improving. Because discrepancies should be reconciled at the appropriation limit and subentity funding level, the CFO Team, Indianapolis, should coordinate with accounting offices and correct the trial balances received each quarter. Improving the trial balances should not be delayed because the DFAS Indianapolis Center does not receive all trial balances each quarter. Until the DFAS Indianapolis Center reviews and reconciles the quarterly trial balances, problems will continue to accumulate until year's end.

Submission Date. The CFO Team, Indianapolis, did not require the accounting offices supporting Other Defense Organizations to submit complete trial balances in sufficient time for the DFAS Indianapolis Center to provide us with preliminary year-end trial balances during October. This was agreed to in the "Memorandum of Understanding on Responsibilities for Audited Financial Statements," June 6, 1997, and was recommended in Report No. 99-006. In the "Fiscal Year 1999 Year-End Instructions for Defense Agencies," June 9, 1999, the DFAS Indianapolis Center required accounting offices to submit trial balances by the first workday in November. As a result, the CFO Team, Indianapolis, was unable to consolidate the preliminary year-end trial balances until November 17, 1999.

Effect on Financial Statements. Because financial data for the Other Defense Organizations included abnormal balances, duplicate balances, and data from separate reports that did not match, the Other Defense Organizations contributed unreliable financial data to the FY 1999 DoD Agency-Wide financial statements. Until corrected, those major deficiencies will continue to inhibit progress toward an unqualified opinion on the DoD Agency-Wide financial statements.

Recommendations, Management Comments, and Audit Response

Added, Renumbered and Revised Recommendations. As a result of management comments, we added Recommendation A.1.a. Draft Recommendations A.1.a., A.1.b., and A.1.c. have been renumbered as Recommendations A.1.b., A.1.c., and A.1.d., respectively. Also, as a result of management comments, we revised recommendation A.2. to clarify the existence of appropriate abnormal balances that would not need to be corrected.

A.1. We recommend that the Director, Defense Finance and Accounting Service Center for Sustaining Forces-Indianapolis:

a. Revise year-end guidance to include data and format requirements for explanatory footnotes to trial balances to ensure reporting consistency by the accounting offices.

b. Establish and implement detailed procedures to review the trial balances submitted for Other Defense Organizations at least quarterly.

(1) Identify abnormal and duplicate balances and the differences between trial balances and “Reports on Budget Execution.”

(2) Notify accounting offices of the differences.

(3) Request that accounting offices correct, as appropriate, the trial balances and “Reports on Budget Execution.”

c. Establish year-end procedures to identify and remove duplicate balances before compiling the financial statements.

d. Provide adequate staffing to implement the recommendations in A.1.b. and c.

Management Comments. DFAS concurred with the recommendation and is establishing procedures to identify abnormal and duplicate balances and balances inconsistent with those on the Report(s) on Budget Execution. DFAS will also request Other Defense Organizations to correct erroneous data and prepare timely and accurate trial balances. In addition, DFAS is reviewing the adequacy of staffing and will make adjustments as necessary.

A.2. We recommend that the Directors, Defense Finance and Accounting Service Cleveland, Columbus, and Denver Centers; the Directors, Defense Finance and Accounting Service Center for Sustaining Forces-Indianapolis, the Defense Information Systems Agency, the Defense Threat Reduction Agency, Washington Headquarters Services, the DoD Education Activity, and Tricare Management Activity-Aurora; and the President, Uniformed Services University of the Health Sciences:

a. Correct abnormal balances, if appropriate, before submission to the Defense Finance and Accounting Service Center for Sustaining Forces-Indianapolis Chief Financial Officer Team for consolidation into trial balances supporting the annual financial statements for Other Defense Organizations-General Funds.

Management Comments. All organizations except the Tricare Support activity responded to the recommendations. All responding organizations, except for the DoD Education Activity, stated that they will correct abnormal balances, if necessary. Both the DoD Education Activity and the Washington Headquarters Services responded that some abnormal balances may not need to be corrected, and both provided examples to support their responses. However, the DoD

Education Activity nonconcurred with the recommendation stating that given the systems under which they are operating, it may not be feasible nor cost effective to complete such reviews in a timely manner.

Audit Response. All management comments, except for the DoD Education Activity, were responsive. We agree that some abnormal balances may be appropriate and, therefore, not need corrective action, and we revised the finding and recommendation accordingly. The DoD Education Activity comments were not responsive because abnormal balances that are not corrected, if appropriate, will continue to be included in the annual financial statements for Other Defense Organizations-General Funds, causing the financial statements to be inaccurate and unreliable. The DoD Education Activity comments also provided an incorrect accounting example to support its response that some abnormal balances may be legitimate. Corrections made in a subsequent reporting period to an accrual posted to the incorrect fiscal year in a previous reporting period should not be posted to GLAC 6000, Expenses, but should be posted to GLAC 7400, Prior Period Adjustments. Because GLAC 6000 is closed at the end of each fiscal year to GLAC 3310, Cumulative Results of Operations, all subsequent adjustments should be made using GLAC 7400, which closes to GLAC 3310. We request that the DoD Education Activity reconsider its position on the recommendation and provide comments on the final report.

b. Provide detailed explanations in footnotes to the trial balances for all abnormal balances that are included on quarterly and annual submissions to the Defense Finance and Accounting Service Center for Sustaining Forces-Indianapolis Chief Financial Officer Team.

Management Comments. All responding organizations, except for the DoD Education Activity, stated that they will explain in appropriate footnotes all abnormal balances. The response from DFAS also indicated that DFAS Centers will fully disclose in accompanying footnotes the causes for abnormal balances, the office responsible for make the correction, and the date the corrects will be completed. In addition, both the DoD Education Activity and the Washington Headquarters Services requested that DFAS issue specific guidance on the format to be used to submit detailed explanations with future trial balance submissions. The DoD Education Activity nonconcurred with the recommendation, stating that given the systems under which they are operating, it may not be feasible nor cost effective to complete such reviews in order to provide explanations for all abnormal balances in a timely manner. The DoD Education Activity also stated that there needed to be a clear definition of an abnormal balance.

Audit Response. All management comments, except for the DoD Education Activity, were responsive. We agree that a standard format should be used for explanatory footnotes to trial balances and have added a recommendation to DFAS to revise year-end guidance to ensure reporting consistency by the accounting offices (Recommendation A.1.a.). The DoD Education Activity comments were not responsive because abnormal balances that are not explained will continue to be included in the annual financial statements for Other Defense Organizations-General Funds, causing the financial statements to be incomplete and unreliable. Although some abnormal balances may be appropriate, all abnormal balances should be footnoted so that financial statements can be

prepared with the appropriate disclosures. Also, because the existing chart of accounts clearly identifies the normal balance for each account, we do not believe that additional guidance is required to define an abnormal, although appropriate, balance. We request that the DoD Education Activity reconsider its position on the recommendation and provide comments on the final report.

B. Compilation of Financial Statements

The DFAS Indianapolis Center needed to improve the process used to adjust, compile, and report financial information for Other Defense Organizations. At least \$179.9 billion of year-end departmental accounting entries were inappropriate or not fully supported; program costs for military retirement health benefits were overstated by \$16.7 billion, and liabilities were overstated by \$10.3 billion; \$2.9 billion in differences with the prior year's statements was not explained; \$3 billion in abnormal balances included in the normal balances was not disclosed; and DFAS included on the Balance Sheet \$3.2 billion of general property, plant, and equipment (PP&E) procured with funds that had been allocated to the Military Departments and would be expected to be reported on their financial statements. The conditions occurred because the DFAS Indianapolis Center did not use sufficient resources to support the compilation process and did not:

- test, completely map, and document the compilation system;
- have a dedicated application in the CFO Financial System to prepare the financial statements for Other Defense Organizations;
- comply with previous recommendations to adequately support year-end departmental accounting entries and reconcile discrepancies in accounting records before making adjustments to force the records to match; and
- adequately review trial balances to ensure that PP&E and related depreciation were correctly reported.

As a result, the FY 1999 Other Defense Organizations-General Funds financial statements were not reliable and contributed unreliable amounts to the FY 1999 DoD Agency-Wide financial statements.

Compilation Process

Changes in the Compilation Process. The DFAS Indianapolis Center expanded the compilation process from three to six stages when compiling the FY 1999 Other Defense Organizations-General Funds financial statements. The compilation process used two general ledgers and four or more software packages, required additional crosswalks and edit tables, and added numerous queries. (See Appendix D for further discussion and a description of each stage in the compilation process.) Crosswalks, edit tables, and queries were created to transfer, compile, or update financial records, and had inherent risks of potential errors until fully tested. The DFAS Indianapolis Center did not test the compilation system before the end of FY 1999, as we recommended in IG, DoD, Report No. 99-139, "Internal Controls and Compliance With Laws and Regulations for the FY 1998 Financial Statements of Other Defense

Organizations,” April 21, 1999, because the new system for compiling the FY 1999 financial statements was not completely implemented until the first week of November 1999. The lack of mapping and testing created numerous problems and imposed a significant scope limitation on our ability to validate balances reported in the financial statements.

System Documentation. The DFAS Indianapolis Center did not have adequate documentation for the changes to the compilation system required by DoD Regulation 7000.14-R. Adequate system documentation includes descriptions of processes, flowcharts, and narrative describing the sequence of actions, adjusting entries, and closing entries. DFAS personnel provided a diagram of the compilation process, but the diagram did not address each stage in compilation, name and describe each file, and identify each in sequence.

Adequacy of Mapping. The DFAS Indianapolis Center had not completely mapped data files in the desktop application (stage 4) for the Statement of Financing, as it had done for the other financial statements. DFAS personnel provided data from the desktop application for us to use in validating the financial statements; however, because the mapping was not complete, we could not validate the Statement of Financing.

Reporting Application. The DFAS Indianapolis Center did not have a separate CFO reporting application (stage 6) for Other Defense Organizations and had to use a stand-alone version of the Army CFO application. DFAS personnel were forced to change the unique Other Defense Organizations entity codes for each program-level trial balance to the codes used in the Army application. To provide better control over the preparation of financial statements for Other Defense Organizations, a separate CFO reporting application should be created for Other Defense Organizations that includes the unique entity codes.

Documentation of the Consolidation and Compilation Processes. The lack of a clearly documented process adversely affected the ability of DFAS Indianapolis Center personnel to consistently consolidate and compile complete financial statements with an audit trail that clearly showed the source of the balances shown on the financial statements. For example:

- Personnel on the CFO Team, Indianapolis, responsible for consolidating trial balances obtained \$17.1 billion of unallocated funding from the Program Budget and Accounting System and entered the funding into a pseudo-limit code of 0000 for inclusion in the trial balance data. Other personnel on the CFO Team, Indianapolis, responsible for compiling the financial statements were not aware of the procedure and removed both the limit and funding using a journal voucher (JV1295000ZZZ), without coordinating with the team members who originally entered the pseudo-limit.
- On the Statement of Net Costs, program costs for Intragovernmental and With the Public did not match the balances in the adjusted trial balance. Costs reported in the adjusted trial balances were \$26 billion for Intragovernmental and \$61.5 billion for With the Public, but the financial statements showed \$24.5 billion and \$62.8 billion, respectively. Because of the lack of documentation

showing a clear audit trail for the adjustments, the CFO Team, Indianapolis, could not explain the discrepancy. That difference could have been explained if the DFAS Indianapolis Center had documented the compilation process and maintained control over the adjustments made to the input spreadsheets (stage 5).

Controls Over Each Stage of Compilation. The DFAS Indianapolis Center did not have controls in place to ensure that the CFO Team, Indianapolis, and contractor personnel processed data consistently at all stages of compilation. The CFO Team, Indianapolis, entered adjustments into a journal voucher file (stage 3) designed to record all journal vouchers supporting the financial statements. They provided the journal voucher file to us as support for the statements. Other CFO Team personnel also entered separate adjustments directly into input spreadsheets (stage 5). However, not all adjustments made by contractor personnel were included in the journal voucher file, and the CFO Team could not track its adjustments because it did not use unique sequence numbers to identify all adjustment transactions.

For both the audited and final versions of the statements, the CFO Team did not provide us with supporting data files that included all the adjustments made. Therefore, we were unable to determine the total adjustments to the reported financial data used to prepare the financial statements.

Accounting Entries Made During Compilation

The CFO Team, Indianapolis, made \$738.3 billion in accounting entries at the departmental level when compiling the FY 1999 Other Defense Organizations-General Funds financial statements. Of the \$738.3 billion, \$179.9 billion in adjustments to the Other Defense Organizations financial statements was not supported, as shown in Table 3.

	Adjustment Category					Total
	Supported Adjustments	Unsupported Adjustments			Adjustments Not Reviewed	
		Trial Balances	Reports on Budget Execution*	Total Unsupported Adjustments		
Quantity	62	23	1	24	19	105
Amount (billions)	\$557.9	\$166.5	\$13.4	\$179.9	\$.5	\$738.3

*"Reports on Budget Execution" were used to compile the Statement of Budgetary Resources, and the lack of support was identified in IG, DoD, Report No. D-2000-103.

The DFAS Indianapolis Center made 23 adjusting entries totaling \$166.5 billion to the Other Defense Organizations trial balances. The 23 adjusting entries were not adequately supported. The DFAS Indianapolis Center could not support the year-end departmental adjustments, as required by Office of Management and Budget Circular No. A-123, "Management Accountability and Control," June 21, 1995, which states that documentation for transactions must be clear and readily available for examination. Additionally, the adjustments were not supported with an adequate audit trail, as defined by the Joint Financial Management Improvement Plan "Core Financial System Requirements," February 1999, which requires that audit trails be provided to trace "transactions through successive levels of summarization to the financial statements" by providing clear details on document input, changes, approval, and deletions. For example, the DFAS Indianapolis Center:

- removed data that were assumed to be erroneous without coordinating the adjustments with accounting offices, as recommended in IG, DoD, Report No. 99-014;³
- used budgetary documents to reclassify expenses reported in proprietary accounts;
- did not provide complete written explanations for the adjusting entries, to include the causes of discrepancies and the need for adjusting entries;
- did not clearly title supporting documentation, identify the source, or attach adequate support for some adjusting entries; and
- forced data on the trial balances to match the "Reports on Budget Execution" without reconciling differences.

Military Retirement Health Benefits Liability

Liabilities not covered by budgetary resources for the Military Retirement Health Benefits liability, as reported on the Balance Sheet, were overstated by \$10.3 billion; cumulative results of operations were overstated on the Balance Sheet by \$6.4 billion; and program costs were overstated on the Statement of Net Cost by \$16.7 billion. During the compilation process, we provided the DFAS Indianapolis Center with the specific accounting entries necessary to accurately report expenses and liabilities for the Military Retirement Health Benefits liability, based on information provided by the Office of the Actuary, DoD. However, not all of our recommended entries were made. If DFAS had recorded our recommended adjustments, the financial statements would have correctly shown the liabilities and expenses reported by the Office of the Actuary, DoD. More detailed problems with the liability and recommended

³IG, DoD, Report No. 99-014, "Compilation of the FY 1997 Financial Statements for Other Defense Organizations," October 15, 1998.

corrective actions are discussed in IG, DoD, Report No. D-2000-141, "Audit of Reporting the Military Retirement Health Benefits Liability in the DoD Financial Statements," June 9, 2000.

Footnote Disclosures on the Financial Statements

The financial statements included \$2.9 billion in unexplained differences from the prior year financial statements, \$3 billion in material abnormal balances included in the apparently normal balances shown on the statements, and inaccurate disclosure on the Statement of Budgetary Resources. All of these problems should have been disclosed, as required by DoD guidance and our prior recommendations.

Balances Transferred to Subsequent Year. The Statement of Budgetary Resources included material differences of \$2.9 billion between ending balances reported on the FY 1998 statement and beginning balances reported on the FY 1999 statement. These balances should have been identical because the ending balance of a year normally becomes the beginning balance of the next year.

- The ending unobligated balances of \$8.4 billion shown on the FY 1998 statement (lines 8 and 9) should have been shown on the FY 1999 statement as Unobligated Balance-Beginning of Period (line 2). However, that balance was reported as \$10.2 billion, leaving an unexplained discrepancy of \$1.8 billion.
- The Obligated Balance, Net-End of Period (line 15) on the FY 1998 statement showed \$22.1 billion. However, the Obligated Balance, Net-Beginning of Period (line 13) on the FY 1999 statement showed \$23.2 billion, leaving an unexplained discrepancy of \$1.1 billion.

DoD Regulation 7000.14-R, volume 6B, requires that balances be correctly transferred between fiscal years. The DFAS Indianapolis Center should have fully disclosed the reasons for the difference in the balances between FYs 1998 and 1999.

Abnormal Balances. Normal balances reported on the Statement of Budgetary Resources included \$3 billion of material abnormal balances. The abnormal balances were not recognizable because they were offset by larger normal balances and were not disclosed in the notes to the financial statements, as recommended by IG, DoD, Report No. 99-191, "Compilation of the FY 1998 Financial Statements for Other Defense Organizations," June 24, 1999. However, \$3 billion is an improvement over the \$17.8 billion of abnormal balances on the FY 1998 financial statements. The balances shown on the Statement of Budgetary Resources were normal because during the compilation process, the abnormal balances reported on some "Reports on Budget Execution" were offset by larger normal balances on other "Reports on Budget Execution." For example, the balance of \$23.2 billion reported on the Statement of Budgetary Resources for Obligated Balance, Net-Beginning of

Period included \$1.1 billion of the \$3 billion of abnormal balances. The remaining \$1.9 billion of abnormal balances was included on multiple lines of the Statement of Budgetary Resources.

Accuracy of Disclosure on Statement of Budgetary Resources. The DFAS Indianapolis Center did not accurately disclose that the Statement of Budgetary Resources was adjusted to match U.S. Treasury records. In Note 1.G., "Funds with the U.S. Treasury and Cash," the DFAS Indianapolis Center reported that the financial statements were prepared from departmental financial records that were not adjusted to U.S. Treasury records. However, to compile the Statement of Budgetary Resources, the DFAS Indianapolis Center used "Reports on Budget Execution," which were adjusted to U.S. Treasury records. Therefore, Note 1.G. was incorrect.

Reporting Property, Plant, and Equipment

At least \$3.2 billion of the \$6.7 billion⁴ of general PP&E reported on the financial statements of Other Defense Organizations was from funds appropriated to Other Defense Organizations and allocated to the Military Departments. The PP&E procured with the funds should be reported on the Military Departments' financial statements. Also, for \$1.7 billion of depreciable PP&E reported on the financial statements, the supporting accounting offices did not provide accumulated depreciation or depreciation expense. Further, for PP&E with recorded depreciation, the depreciation expense was overstated by at least \$153 million. As a result, the FY 1999 Other Defense Organizations financial statements were materially misstated.

Reporting General PP&E. Other Defense Organizations includes Defense organizations that suballocate funds to the Military Departments. When an organization acquires PP&E, it must be reported on the financial statements of the organization predominantly using the PP&E, rather than the organization that provided the funding.⁵ The accounting offices supporting Other Defense Organizations did not consistently apply that policy when preparing the trial balances supporting Other Defense Organizations. Also, DFAS had not established procedures and did not have adequate staffing to review and compare trial balance submissions for PP&E to ensure that PP&E was reported on the financial statements of the correct reporting entity.

On the FY 1999 Other Defense Organizations-General Funds financial statements, PP&E included at least \$3.2 billion that had been allocated to the Military Departments. Table 4 shows the original recipients of the appropriations and the PP&E reported from suballotments to the Military Departments.

⁴Amounts for general PP&E are the reported acquisition costs minus the reported accumulated depreciation plus construction-in-progress.

⁵Under Secretary of Defense (Comptroller) Memorandum, "Revised Policy Pertaining to General Property, Plant and Equipment," August 5, 1999, requires the predominant user to report PP&E on its financial statements, regardless of the source of the funding used to acquire the asset.

Table 4. PP&E Acquired From Treasury Index 97 Funds Suballotted to the Military Departments and Included on the Financial Statements of Other Defense Organizations

(millions)

<u>Recipient of Appropriation</u>	<u>Organizations Receiving Suballotments</u>			
	<u>Army</u>	<u>Navy</u>	<u>Air Force</u>	<u>Total</u>
Defense Health Program	\$1,026	\$222	0	\$1,248
Ballistic Missile Defense Organization	767	0	0	767
Base Realignment and Closure Account	535	0	\$239	774
Military Construction Program	223	0	0	223
Washington Headquarters Services	129	0	0	129
U.S. Special Operations Command	<u>21</u>	<u>0</u>	<u>0</u>	<u>21</u>
Total	\$2,701	\$222	\$239	\$3,162

Because the funds were suballocated to the Military Departments, the PP&E would be expected to be reported on the financial statements of the Military Departments. Included in the \$3.2 billion in PP&E was \$1.3 billion in construction-in-progress or work-in-process accounts. Under Secretary of Defense (Comptroller) personnel responsible for PP&E reporting policy informed us that construction-in-progress should be reported on the financial statements of the ultimate users.

Reporting of Depreciation. Accumulated depreciation and depreciation expense was not reported for \$1.7 billion of depreciable assets, and depreciation expense was overstated by at least \$153 million for PP&E that showed depreciation.

Accumulated Depreciation and Depreciation Expense Not Reported. PP&E totaling \$1.7 billion did not show corresponding accumulated depreciation or depreciation expense. The majority of depreciable assets without depreciation, \$1.6 billion, was owned by the Army and should not have been reported on the FY 1999 Other Defense Organizations-General Funds financial statements. That PP&E, along with the required depreciation, should have been included on the FY 1999 Army General Fund financial statements.

However, the DFAS Indianapolis Center and supporting accounting offices had not established procedures to ensure that appropriate expense and accumulated depreciation were recorded and reported for depreciable assets.

Reported Depreciation Expense. Depreciation expense for PP&E reported in FY 1999 was overstated by at least \$153 million because it included depreciation amounts for more than 1 year of depreciation. For example, depreciation expense on \$228 million of equipment for limit 1874 (procurement funds for the Tricare Management Activity) was shown as \$114 million, or 50 percent of the reported acquisition cost of the equipment. However, according to Note 9 of the financial statements, the service life of all the reported equipment was 5 to 10 years, which would equal a maximum depreciation expense of \$45.6 million (20 percent of \$228 million) for FY 1999.

Policy and Procedural Guidance. Policy and procedural guidance were not clear on how PP&E, including construction-in-progress and work-in-process, funded by Treasury Index 97 appropriations suballotted to the Military Departments, should be recorded in accounting records and adjusted during the compilation process. Also, our audit did not include a detailed review of the specific assets purchased with Treasury Index 97 funds and the ultimate users and composition of PP&E. We have discussed with Under Secretary of Defense (Comptroller) personnel the need for additional policy on accounting for and reporting PP&E procured with Treasury Index 97 funds that were suballotted to the Military Departments.

Conclusion

DFAS is making progress in the difficult task of consolidating and compiling data to support the annual financial statements for Other Defense Organizations. Contractor personnel from a certified public accounting firm provided additional support and assistance in compiling the FY 1999 financial statements. However, DFAS had not established an organizational unit responsible for compiling and preparing the financial statements for Other Defense Organizations, as we recommended in IG, DoD, Report No. 99-139. Also, other recommendations from prior audits, as referenced in this report and shown in Appendix B, have not been implemented.

In June 1999, the DFAS Indianapolis Center implemented a process for monitoring and tracking financial reporting deficiencies and corrective actions by establishing a Project Assessment Team. The Project Assessment Team prepared a document known as the "DFAS Indianapolis Center Implementation Strategies for Other Defense Organizations-General Funds." The implementation strategies identified each action item, planned and actual start and finish dates, the responsible working group, and a reference to the audit that identified the need for the action item. The team included representatives from each working group within the DFAS Indianapolis Center responsible for initiating corrective action, and also included representatives from the IG, DoD. The team identified the status of recommendations and established action plans for correcting deficiencies. The Project Assessment Team has improved the ability of the DFAS Indianapolis Center to monitor the status of correcting the

problems identified by audits. We will continue actively working with the Project Assessment Team to ensure that recommendations are fully implemented and improvements are made to the consolidation and compilation processes.

DFAS compilation personnel are not responsible for the quality of data received from noncompliant accounting systems, but are responsible for identifying erroneous data and improving the quality of the data. The consolidation and compilation of financial data for Other Defense Organizations will remain a challenge until transaction-driven accounting systems are in place. By using additional resources to perform reconciliations and coordinate with supporting accounting offices, the DFAS Indianapolis Center could improve the data, correct obvious errors before year's end, and significantly improve the consolidation and compilation process. Also, implementation of our recommendation to compile midyear financial statements⁶ would help ensure that compilation is effective.

The number of balances reported on the financial statements for Other Defense Organizations-General Funds increased from 47 lines in FY 1998 to 58 lines in FY 1999. The Other Defense Organizations are an increasingly important and material component of the DoD Agency-Wide financial statements. As a result of deficiencies in the compilation process, unsupported adjustments, inaccurate representation of the military retirement health benefits liability, inadequacy of footnote disclosures, and inconsistent reporting of PP&E, the FY 1999 Other Defense Organizations-General Funds financial statements were not reliable and contributed unreliable amounts to the FY 1999 DoD Agency-Wide financial statements. The DFAS Indianapolis Center should place increased emphasis on improving the accuracy and reliability of the financial statements for Other Defense Organizations.

Recommendations and Management Comments

B.1. We recommend that the Director, Defense Finance and Accounting Service Center for Sustaining Forces-Indianapolis:

a. Prepare complete system documentation on the process used to consolidate and compile the financial statements for Other Defense Organizations-General Funds, including a complete description of the process used to consolidate and compile the financial statements, with flowcharts showing how data flow from one stage of the compilation process to the next stage and narrative explaining the sequence of actions, adjusting entries, and closing entries.

b. Review and analyze depreciable accounts in year-end trial balances to determine whether depreciation was reported and direct accounting offices to correct deficiencies identified during the review process.

⁶IG, DoD, Report No. 99-139 recommended that the DFAS Indianapolis Center prepare interim financial statements before the end of FY 1999.

Management Comments. DFAS concurred and has prepared documentation that includes flowcharts and narrative describing the sequence of actions and adjusting and closing entries for the consolidation and compilation process. DFAS will also ensure that changes planned in the compilation process for the FY 2000 financial statements are incorporated into the documentation. The CFO Team will also review depreciable accounts with personnel from Other Defense Organizations to determine appropriate year-end balances.

B.2. We recommend that the Director, Defense Finance and Accounting Service:

a. Provide specific procedures to personnel who compile the Other Defense Organizations-General Funds financial statements to review and coordinate with specific Other Defense Organizations to ensure that property, plant, and equipment and related depreciation are correctly reported on the financial statements of the appropriate reporting entity.

b. Develop a dedicated system application for preparing the FY 2000 Other Defense Organizations-General Funds financial statements that includes the unique compilation codes needed for Other Defense Organizations.

Management Comments. DFAS concurred and will issue supplementary guidance to DFAS Centers for any additional procedures not included in volume 6B, DoD Regulation 7000.14-R. DFAS will also include the unique compilation codes needed for Other Defense Organizations in the Defense Departmental Reporting System module that will be used to generate the FY 2000 financial statements.

Appendix A. Audit Process

Scope

Financial Statements Reviewed. We reviewed the processes used to consolidate and compile the FY 1999 Other Defense Organizations-General Funds financial statements, including the Balance Sheet, Statement of Net Cost, Statement of Net Position, Statement of Budgetary Resources, and Statement of Financing. Specifically, we reviewed the supporting U.S. Treasury warrants, trial balances, "Reports on Budget Execution," journal vouchers, data files, and the flow of financial data through the compilation process, as shown in Appendix D. In the absence of written documentation, we interviewed personnel responsible for compiling the statements to determine the methodologies they used. See IG, DoD, Report No. D-2000-103, "Internal Controls and Compliance With Laws and Regulations for the FY 1999 Financial Statements for Other Defense Organizations-General Funds," March 16, 2000, for our review of internal controls.

Scope Limitation. The DFAS Indianapolis Center provided 105 adjustments made to reported financial data during the compilation process; however, we were unable to determine the total number of adjustments because the supporting data files did not include all adjustments made by the CFO Team, Indianapolis. Also, in some cases, the CFO Team, Indianapolis, could not give the source of balances in the financial statements.

Amounts Reported in the FY 1999 Financial Statements. The FY 1999 Other Defense Organizations-General Funds financial statements showed total assets of \$44 billion, total liabilities of \$215.8 billion, total budgetary authority of \$53.1 billion, net cost of operations of \$84.4 billion, and obligations incurred of \$56 billion.

DoD-Wide Corporate-Level Government Performance and Results Act Goals. In response to the Government Performance and Results Act, the Secretary of Defense annually establishes DoD-wide corporate-level goals, subordinate performance goals, and performance measures. This report pertains to achievement of the following goal, subordinate performance goal, and performance measures:

- **FY 2001 Corporate-Level Goal 2:** Prepare now for an uncertain future by pursuing a focused modernization effort that maintains U.S. qualitative superiority in key warfighting capabilities. Transform the force by exploiting the Revolution in Military Affairs, and reengineer the Department to achieve a 21st century infrastructure. **(01-DoD-2)**
- **FY 2001 Subordinate Performance Goal 2.5:** Improve DoD financial and information management. **(01-DoD-2.5)**

-
- **FY 2001 Performance Measure 2.5.1:** Reduce the number of noncompliant accounting and financial systems. **(01-DoD-2.5.1.)**
 - **FY 2001 Performance Measure 2.5.2:** Achieve unqualified opinions on financial statements. **(01-DoD-2.5.2.)**

DoD Functional Area Reform Goals. Most major DoD functional areas have also established performance improvement reform objectives and goals. This report pertains to achievement of the following functional area objectives and goals:

- **Financial Management Functional Area. Objective:** Reengineer DoD business practices. **Goal:** Improve data standardization of finance and accounting data items. **(FM-4.4)**
- **Financial Management Functional Area. Objective:** Strengthen internal controls. **Goal:** Improve compliance with the Federal Managers' Financial Integrity Act. **(FM-5.3)**

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

Methodology

Auditing Standards. This audit was performed in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the IG, DoD, based on the objectives of the audit and the limitations to the scope described in this appendix.

Computer-Processed Data. We used computer-processed data in this audit; however, we did not confirm the reliability of the data because the accounting systems used to prepare the financial statements for Other Defense Organizations had serious limitations. The lack of reliable financial information was described as a material management control deficiency in the FY 1998 and 1999 DoD Annual Statements of Assurance. The lack of reliable information did not adversely affect our analysis.

Audit Period and Location. We performed this financial-related audit from December 1999 through February 2000 at the DFAS Indianapolis Center.

Contacts During the Audit. We visited and contacted individuals and organizations within the DoD. Further details are available on request.

Appendix B. Prior Audit Reports With Open Recommendations

The IG, DoD, has issued several audit reports on the consolidation and compilation of the financial statements for Other Defense Organizations and related internal control deficiencies. The DFAS Indianapolis Center has not taken action to correct the problems described in the following IG, DoD, reports.

Report No. 99-191, "Compilation of the FY 1998 Financial Statements for Other Defense Organizations," June 24, 1999. Open Recommendation: Disclose and explain in the notes to the financial statements material abnormal balances included in normal balances reported on the financial statements.

Report No. 99-139, "Internal Controls and Compliance with Laws and Regulations for the FY 1998 Financial Statements of Other Defense Organizations," April 21, 1999. Open Recommendations: Establish a dedicated organizational unit responsible for preparing the financial statements for Other Defense Organizations. Document and map the processes and financial systems needed to compile the financial statements. Test the compilation system before the end of FY 1999.

Report No. 99-014, "Compilation of the FY 1997 Financial Statements for Other Defense Organizations," October 15, 1998. Open Recommendations: Document and maintain complete audit trails for all year-end adjustments. Establish procedures to coordinate with Other Defense Organizations and accounting offices when making adjustments to trial balances submitted.

Report No. 99-006, "Consolidation Process for FY 1997 Financial Statements for Other Defense Organizations," October 6, 1998. Open Recommendations: Increase staffing to review and reconcile quarterly trial balances and update departmental records. Require accounting offices to submit trial balances in time for preliminary balances to be provided to the IG, DoD, each October.

Appendix C. Other Defense Organizations- General Funds¹

American Forces Information Service
Ballistic Missile Defense Organization
Defense Acquisition University
Defense Advanced Research Projects Agency
Defense Building Maintenance Fund
Defense Commissary Agency
Defense Contract Audit Agency
Defense Emergency Response Fund
Defense Finance and Accounting Service
Defense Health Program²
Defense Homeowners Assistance Fund
Defense Information Systems Agency
Defense Intelligence Agency
Defense Legal Services Agency
Defense Logistics Agency
Defense Manpower Data Center Facility
Defense Prisoner of War/Missing in Action Office
Defense Security Cooperation Agency
Defense Security Service
Defense Threat Reduction Agency³
DoD Education Activity
DoD Education Benefits Fund
Federal Energy Management Fund
Foreign National Employees Separation Pay Account Trust Fund
Joint Chiefs of Staff
National Defense Stockpile Transaction Fund
National Imagery and Mapping Agency
National Security Agency
National Security Education Trust Fund
Office of Economic Adjustment
Office of the Inspector General
Office of the Secretary of Defense⁴
Pentagon Reservation Maintenance Revolving Fund
Ready Reserve Mobilization Income Insurance Fund
U.S. Court of Appeals for the Armed Forces
U.S. Special Operations Command
Voluntary Separation Incentive Trust Fund
Washington Headquarters Services

¹Includes trust funds and revolving funds not included in U.S. Treasury basic symbol 4930.

²Includes the Tricare Management Activity, the Uniformed Services University of the Health Sciences, and funds allocated to the Military Departments.

³Formed on October 1, 1998, by consolidating the Defense Technology Security Administration, the Defense Special Weapons Agency, and the On-Site Inspection Agency.

⁴Includes other Treasury Index 97 funds provided to Military Departments and Defense organizations through the Office of the Secretary of Defense.

Appendix D. Comparison of the FY 1998 and 1999 Compilation Processes

For FY 1998, the CFO Team, Indianapolis, prepared the Defense agency master file to consolidate the trial balances and crosswalk those balances to the DFAS Indianapolis Center's Standard General Ledger* (stage 1); prepared a Source 97 file, which was used to adjust the consolidated trial balances to match budgetary data shown on "Reports of Budget Execution" (stage 2); and used the desktop application to crosswalk the consolidated trial balances to the U.S. Government Standard General Ledger and prepare the financial statements (stage 3). See Figure D-1.

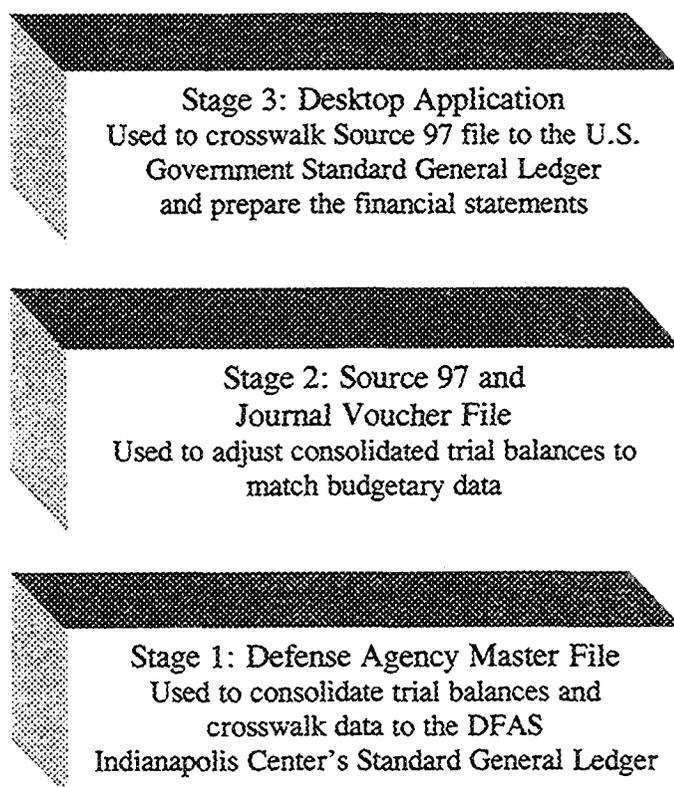


Figure D-1. Three Stages in the FY 1998 Compilation Process

For FY 1999, the Federal Financial System (stage 2) was added to archive balances and adjustments made throughout the compilation process, and the CFO Financial System, a DFAS contractor-developed system, added stages 5 and 6. The spreadsheets (stage 5) consolidated trial balances from the desktop

*The DFAS Indianapolis Center's Standard General Ledger is a previous version of the DoD Standard General Ledger.

application and provided the universe of data for the queries at the final level. A database program (stage 6) queried the input spreadsheets and prepared the financial statements.

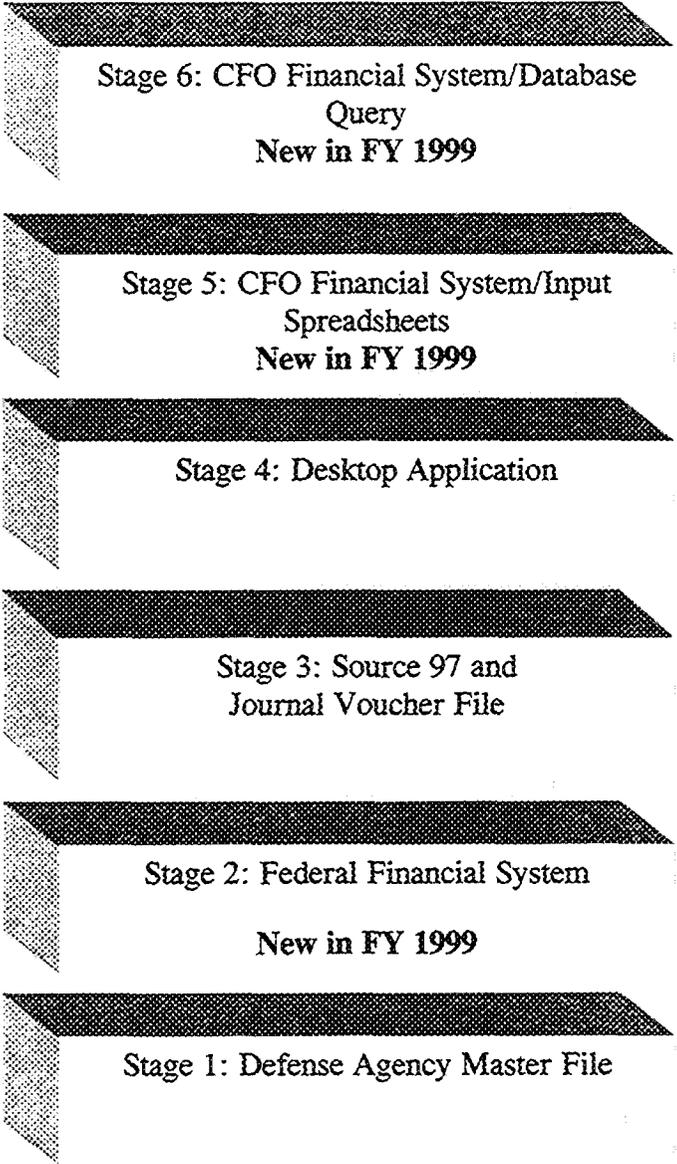


Figure D-2. Six Stages in the FY 1999 Compilation Process

Appendix E. Accounting Centers or Offices Submitting Abnormal Balances of More Than \$10 Million

Accounting Office/Center	Limit	Entity
Defense Accounting Directorate (Washington Headquarters Services)	1120	Secretary of Defense Activities-Washington Headquarters Services
	2020	Washington Headquarters Services
Defense Agency Financial Services ¹	1220	Organization of the Joint Chiefs of Staff
	1320	Defense Advanced Research Projects Agency
Defense Information Systems Agency	4300	Defense Information Systems Agency
DFAS Cleveland Center ²	0400	Department of the Navy
	1604	Base Closure and Realignment Commission-Navy
	2004	Washington Headquarters Services-Navy
	2304	Federal Energy Management Program-Navy
	2504	Ballistic Missile Defense Organization-Navy
	5604	Special Operation Forces, Defense-Navy
6034	Section 6-Navy Stateside Dependent Schools	
DFAS Columbus Center ²	5100	Defense Logistics Agency
	6101	Defense Acquisition University
	6400	Defense Commissary Agency
	7000	Defense Finance and Accounting Service
DFAS Denver Center ²	0200	Department of the Air Force
	1102	Secretary of Defense Activities-Air Force
	25FF	Ballistic Missile Defense Organization-Air Force
DFAS Indianapolis Center ²	0100	Department of the Army
	0501	Marine Corps Reserve
	16A1	Base Closure and Realignment Commission-Army
	1801	Defense Health Program-Army
	2001	Washington Headquarters Services-Army
	2601	Ballistic Missile Defense Organization-Army
3601	Washington Headquarters Services-Army	

¹Defense Agency Financial Services is an accounting office at the DFAS Indianapolis Center that provides accounting for Other Defense Organizations.

²The DFAS Centers receive the information from supporting accounting offices in most cases, and may need to determine the cause of abnormal balances by coordinating with the supporting accounting offices before submitting trial balances to the CFO Team, Indianapolis, at the DFAS Indianapolis Center.

Accounting Office/Center	Limit	Entity
DoD Dependent Schools	6001	DoD Dependent Schools-Germany Region
	6021	DoD Dependent Schools-Europe-Support and Test Equipment List
Tricare Management Activity-Aurora	1886	Defense Health Program-(Operation and Maintenance) CHAMPUS

Appendix F. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)
Deputy Comptroller (Program/Budget)
Deputy Chief Financial Officer
Director for Accounting Policy
Director, Defense Logistics Studies Information Exchange

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Naval Inspector General
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Finance and Accounting Service
Director, Defense Finance and Accounting Service Center for Sustaining Forces-
Indianapolis
Director, Defense Finance and Accounting Service Cleveland Center
Director, Defense Finance and Accounting Service Columbus Center
Director, Defense Finance and Accounting Service Denver Center
Director, Defense Information Systems Agency
Director, Defense Threat Reduction Agency
Director, DoD Education Activity
Director, Tricare Management Activity
Director, Washington Headquarters Services
President, Uniformed Services University of the Health Sciences

Non-Defense Federal Organizations and Individuals

Office of Management and Budget
General Accounting Office
National Security and International Affairs Division
Technical Information Center

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 Management, Information, and Technology,
Committee on Government Reform

House Subcommittee on National Security, Veterans Affairs, and International
Relations, Committee on Government Reform

Defense Finance and Accounting Service Comments



DFAS-HQ/ASF

DEFENSE FINANCE AND ACCOUNTING SERVICE

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JUN - 8 2000

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

SUBJECT: Audit Report on Compilation of the FY 1999 Financial Statements for Other
Defense Organizations-General Funds (Project No. D2000FA-0043.001)
(formerly Project No. 0FA-2108.01)

Our response to the subject audit is attached. The primary point of contact (POC)
is Mr. Wayne Ebaugh, (703) 607-2857 or DSN 327-2857, and the secondary POC is
Mr. Mike Bryant, (703) 607-1562 or DSN 327-1562.


Edward A. Harris
Director for Accounting

Attachment:
As stated

cc:
DFAS-HQ/DI
DFAS-CL/PI
DFAS-CO/AT
DFAS-DE/DIW
DFAS-IN/XP

Final Report
Reference

**DFAS Comments on DoDIG Audit Report on Compilation of the FY 1999
Financial Statements for Other Defense Organizations-General Funds
(Project No. D2000FA-0043.001) (formerly Project No. 0FA-2108.01)**

Responses to Recommendations

Recommendation A.1. We recommend that the Director, Defense Finance and Accounting Service Center for Sustaining Forces-Indianapolis:

Recommendation
A.1.b.

a. Establish and implement detailed procedures to review the trial balances submitted for Other Defense Organizations at least quarterly.

(1) Identify abnormal and duplicate balances and the differences between trial balances and "Reports on Budget Execution."

(2) Notify accounting offices of the differences.

(3) Request that accounting offices correct the trial balances and "Reports on Budget Execution."

Recommendation
A.1.c.

b. Establish year-end procedures to identify and remove duplicate balances before compiling the financial statements.

Recommendation
A.1.d.

c. Provide adequate staffing to implement the recommendations in A 1 a and b.

DFAS Management Comments. Concur. The Chief Financial Officer (CFO) Team, Center for Sustaining Forces - Indianapolis, is establishing procedures for reviewing the quarterly and yearly trial balances submitted by the Other Defense Organizations (ODO). The procedures will include identifying abnormal and duplicate balances, balances that are inconsistent with the Report of Budget Execution, and other invalid accounting data. The procedures also will include notifying the ODOs of erroneous data and late trial balance submissions, requesting corrections as appropriate, and requesting the timely submission of accurate trial balances. The Center's FY 2000 year-end letter to the Defense Agencies includes procedures that request the elimination of abnormal trial balances. Adequacy of staffing is being reviewed, and adjustments will be made as necessary.

Estimated Completion Date: August 31, 2000.

Recommendation A.2. We recommend that the Directors, Defense Finance and Accounting Service Centers, Cleveland, Columbus, and Denver; the Directors, Defense Finance and Accounting Service Center for Sustaining Forces-Indianapolis, the Defense Threat Reduction Agency, Washington Headquarters Services, the DoD Education Activity, and Tricare Management Activity-Aurora; and the President, Uniformed Services University of the Health Sciences:

a. Correct abnormal balances before submission to the Defense Finance Accounting Service Indianapolis Center's Chief Financial Officer Team for Consolidation into trial balances supporting the annual financial statements for Other Defense Organizations

Revised

b. Provide detailed explanations for abnormal balances that cannot be corrected and are included on quarterly and annual submissions to the Defense Finance and Accounting Service Center for Sustaining Forces-Indianapolis Chief Financial Officer Team.

Revised

DFAS Management Comments. Concur. The DFAS is implementing procedures to resolve abnormal balances before submission of quarterly and year-end trial balances to the CFO Team. Should abnormal balances remain, the DFAS Centers will fully disclose in accompanying footnotes the causes for abnormal balances. Disclosure will include:

- a. The cause of the abnormal balance.
- b. The files impacted.
- c. The office responsible for correcting the abnormal balance.
- d. The steps taken to correct the abnormal balance.
- e. The date corrections will be completed.

Estimated Completion Date: January 31, 2001.

Recommendation B.1. We recommend that the Director, Defense Finance and Accounting Service Center for Sustaining Forces-Indianapolis:

a. Prepare complete system documentation on the process used to consolidate and compile the financial statements for Other Defense Organizations-General Funds, including a complete description of the process used to consolidate and compile the financial statements, with flowcharts showing how data flow from one stage of the of the compilation process to the next stage and narrative explaining the sequence of actions, adjusting entries, and closing entries.

b. Review and analyze depreciable accounts in year-end trial balances to determine whether depreciation was reported and direct accounting offices to correct deficiencies identified during the review process.

DFAS Management Comments. Concur. Documentation, including flowcharts and a narrative describing the sequence of actions, adjusting entries, and closing entries in the consolidation and compilation process, has been prepared. During FY 2000, the compilation process will undergo changes with the planned deployment of the Defense Departmental Reporting System (DDRS) in June 2000. Changes resulting from the use of DDRS will be incorporated into the documentation. The CFO Team will review depreciable accounts with ODO personnel and will determine appropriate year-end balances.

Estimated Completion Date: January 31, 2001.

Recommendation B.2. We recommend that the Director, Defense Finance and Accounting Service:

a. Provide specific procedures to personnel compiling the Other Defense Organizations financial statements to review and coordinate with specific Other Defense Organizations to ensure that property, plant, and equipment and related depreciation are correctly reported on the financial statements of the appropriate reporting entity.

b. Develop a dedicated system application for preparing the FY 2000 financial statements for Other Defense Organizations-General Funds that includes the unique compilation codes needed for Other Defense Organizations.

DFAS Management Comments. Concur. Property, plant, and equipment and related depreciation information is covered by the data call requirements contained in the DoD Financial Management Regulation 7000.14-R, Volume 6B. These requirements apply to the Other Defense Organizations. The DFAS Headquarters will issue as part of its supplementary guidance to the DFAS Centers any additional procedures addressing unique requirements associated with compilation of equipment and related depreciation financial statement information for ODOs. The unique compilation codes needed for ODOs will be included in the Defense Departmental Reporting System module that will be used to generate the FY 2000 financial statements.

Estimated Completion Date: September 30, 2000.

Defense Information Systems Agency Comments



IN REPLY
REFER TO

Inspector General (IG)

DEFENSE INFORMATION SYSTEMS AGENCY
701 S. COURTHOUSE ROAD
ARLINGTON, VIRGINIA 22204-2199

26 May 2000

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE
(ATTN: FINANCE AND ACCOUNTING DIRECTORATE)

SUBJECT: Response to DoDIG Draft Report, "Compilation of the FY
1999 Financial Statements for Other Defense
Organizations (Project D2000FA-0043.001)

1. The attached enclosure provides general comments from the
Defense Information Systems Agency on the above referenced GAO
Draft Report.

2. If you have any questions, please call Mr. Jason Bakker, at
(703) 607-6607.

A handwritten signature in black ink, appearing to read "R. Race".

RICHARD T. RACE
Inspector General

Enclosure a/s

Quality Information for a Strong Defense

Final Report
Reference

INTEROFFICE MEMORANDUM

TO: Inspector General (IG)
FROM: Comptroller (DC)
Date: 26 May 2000
Subject: DOD IG Draft Report, Compilation of the FY 1999
Financial Statements for Other Defense
Organizations-General (Project D2000FA-0043.001)
Preparer: Juanita R. Rankin/DC5/703-607-6367

1. We have reviewed the DODIG draft evaluation of the Compilation of the FY 1999 Financial Statements for Other Defense Organizations-General (Project D2000FA-0043.001) and offer the following comments to recommendation A.2., page 8:

a. A.2.a. Correct abnormal balances before submission to the Defense Finance Accounting Service Indianapolis Center's Chief Financial Officer Team for consolidation into trial balances supporting the annual financial statements for Other Defense Organizations.

Concur. DISA has put the following procedures in place to enhance its business practices to ensure abnormal balances are corrected before submission to the Defense Finance Accounting Service Indianapolis Center's Chief Financial Officer Team:

(1) A separate General Ledger Cell has been established in the Financial Operations Division whose major function is to produce and analyze General Ledger Trial Balance and handle other management information issues.

(2) Standing Operating Procedures are being written using OMB circular A34, DOD FMR updated guidance, and policy letters governed by new congressional mandates.

(3) Accounting recordkeeping is being consolidated in one database.

(4) Automated systems support access and training is being scheduled to give DISA accountants database visibility on a daily basis.

Revised

DISA IM, DC, DOD Draft Report, Compilation of the FY 1999
Financial Statements for Other Defense Organizations-General
(Project D2000FA-0043.001), 26 May 2000

(5) Accountants are scheduled for Standard General
Ledger training.

b. A.2.b. Provide detailed explanations for abnormal
balances that cannot be corrected and are included on quarterly
and annual submissions to the Defense Finance and Accounting
Service Center for Sustaining Forces-Indianapolis Chief
Financial Officer Team.

Concur. In future submissions detailed explanations will be
provided in footnotes for abnormal balances that cannot be
corrected and are included on quarterly and annual submissions
to the Defense Finance and Accounting Service Center for
Sustaining Forces-Indianapolis Chief Financial Officer Team.
Abnormal balances will be addressed, completely under separate
cover by 30 September 2000.

2. With regard to the abnormal DISA balances listed in the
subject report, we are obtaining the detailed data to determine
what corrections should be made to the balances or what
explanation should be provided as to why they exist. We plan to
have this action complete by 31 July 2000.

3. We appreciate the opportunity to comment on your report.
Should you have any questions, please contact Ms. Juanita R.
Rankin, Accountant, Financial Operations Division, DC5,
(703) 607-6367.


EDWARD B. CODY
Comptroller

Revised

Defense Threat Reduction Agency Comments



Defense Threat Reduction Agency

45045 Aviation Drive
Dulles, VA 20166-7517

MAY 26 2000

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE
ATTN: FINANCE AND ACCOUNTING DIRECTORATE

SUBJECT: Audit Report on Compilation of the FY 1999 Financial
Statements for Other Defense Organizations - General
Funds (Project No. D2000FA-0043.001)

The Defense Threat Reduction Agency (DTRA) Financial Management Office (FM) has reviewed the subject report and concurs with its findings.

Because of the complexity of legacy agencies formerly capitalized by the Defense Finance and Accounting Service (DFAS) and now belonging to DTRA, significant coordination must be conducted between DTRA and DFAS to correct previous balances. DTRA FM personnel will assist DFAS personnel in all efforts to correct abnormal balances in prior year financial statements.

For current and future trial balance submissions, analysis will be conducted prior to forwarding the reports to DFAS. Where abnormal balances occur, research will be conducted to correct requisite transactions and balances. Where further research is required, DTRA will forward the report to DFAS to meet quarterly suspense dates, and provide a cover sheet that identifies abnormal balances and actions required to correct the deficiency. Follow up action will be suspended until the deficiencies are corrected. Performing this critical review on a monthly basis in the future should assist with reconciliation and accurate reporting of year-end financial statements.

Points of contact for this action is Carolyn Johnson, FMAA, 703-810-4303, or Joyce Fitzhugh, FMAA, 703-810-4308.

A handwritten signature in black ink, appearing to read "Jay Davis", is written over a horizontal line.

Jay Davis
Director

DoD Education Activity Comments

Final Report
Reference



DEPARTMENT OF DEFENSE
EDUCATION ACTIVITY
4040 NORTH FAIRFAX DRIVE
ARLINGTON, VIRGINIA 22203-1635

JUN 7 2000

MEMORANDUM FOR DIRECTOR, FINANCE AND ACCOUNTING DIRECTORATE,
DOD INSPECTOR GENERAL

SUBJECT: Audit Report on Compilation of the FY 1999 Financial Statements for Other
Defense Organizations-General Funds (Project No. D2000FA-0043.001)

We have reviewed the draft audit report and provide the following comments per your request.

Recommendation A.2.a. Correct abnormal balances before submission to the Defense Finance and Accounting Service Indianapolis Center's Chief Financial Officer Team for consolidation into trial balances supporting the annual financial statements for Other Defense Organizations.

Revised

We nonconcur with the recommendation as it is written. The draft report indicates that all general ledger accounts maintaining abnormal balances are incorrect. This is not always the case, there are instances where an account balance is abnormal but it is correct. Corrections to prior year accounts may cause abnormal balances in other general ledger accounts. An example is the correction of an accrual and disbursement posted to the wrong fiscal year. Both general ledger 1012 (Funds Disbursed) and the corresponding 6000 (Expenses) accounts may show abnormal balances when the fiscal year correction is posted. In this case the entry is perfectly valid, yet the balances in the general ledger may not be normal.

Since we are reporting at the appropriation level, it is quite common to have abnormal balances for prior year appropriations that are accurate and supportable. These balances are primarily due to correcting and adjusting entries made during the current fiscal year for prior year appropriations.

We do agree in principle that balances defined as "abnormal" by the DOD Uniform Chart of Accounts (DOD 7000.14.r) should be reviewed prior to submission. However, given the systems we are operating under it may not be feasible nor cost effective to complete such reviews in a timely manner.

Recommendation A.2.b. Provide detailed explanations for abnormal balances that cannot be corrected and are included on quarterly and annual submissions to the Defense Finance and Accounting Service Center for Sustaining Forces-Indianapolis Chief Financial Officer Team.

Revised

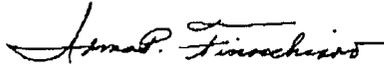


We nonconcur. Again, this recommendation makes the assumption that all abnormal balances are in error and should be corrected. Although we agree in principle, it is not economically feasible to complete such a review in a timely manner. Since some of the abnormal balances may be correct and are appearing as abnormal balances because of timing differences in reporting or the ambiguous definition of "abnormal balances," the investment in time and resources for a detailed review of all abnormal balances would be extensive.

In order to identify and correctly report true abnormal balances, we recommend that a clear definition of what constitutes an "abnormal balance" be provided. If quarterly and annual trial balances require detailed explanations, guidance should contain both the format to be used and at what level the inaccuracy be considered material.

The format for submittal of these footnotes is also a concern. Currently all DoDEA submissions to DFAS-IN are in the form of electronic machine-readable data files. To continue to comply with current submission requirements, it will be necessary for DFAS-IN to develop the formats and methodology for footnotes and associated file submission.

You can contact us at (703) 696-3835 with any questions.



Irma P. Finocchiaro
Comptroller

Washington Headquarters Services Comments

Final Report
Reference



DEPARTMENT OF DEFENSE
WASHINGTON HEADQUARTERS SERVICES
1155 DEFENSE PENTAGON
WASHINGTON, DC 20301-1155

(Budget and Finance)

May 31, 2000

MEMORANDUM FOR DoD INSPECTOR GENERAL
DIRECTOR, FINANCE AND ACCOUNTING DIRECTORATE

SUBJECT: Audit Report on Compilation of the FY 1999 Financial Statements for Other
Defense Organizations-General Funds (Project No. D2000FA-0043 001)

The subject draft audit report has been reviewed and the following comments are provided per your request.

Recommendation A.2.a. Correct abnormal balances before submission to the Defense Finance and Accounting Service Indianapolis Center's Chief Financial Officer Team for consolidation into trial balances supporting the annual financial statements for Other Defense Organizations

Revised

Partially concur. The audit report implies that abnormal balances are incorrect, when in fact there are some instances where abnormal balances are correct. When certain transactions are corrected in a prior year, the effect can be an abnormal balance in a particular general ledger account. For example, a disbursement that was posted in the wrong fiscal year will create an abnormal balance in general ledger account 1012 when corrected for prior year activity.

Since we are reporting at the appropriation level, it is quite common to have abnormal balances for prior year appropriations that are accurate and supportable. These balances are primarily due to correcting and adjusting entries made during the current fiscal year for prior year appropriations.

Suggest the recommendation be reworded to acknowledge the existence of "legitimate" abnormal balances. We will take action to correct any abnormal balances that are not supportable by the detailed accounting transactions.

Recommendation A.2.b. Provide detailed explanations for abnormal balances that cannot be corrected and are included on quarterly and annual submissions to the Defense Finance and Accounting Service Center for Sustaining Forces-Indianapolis Chief Financial Officer Team.

Revised

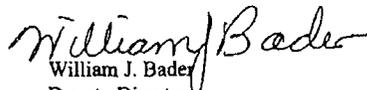


Partially concur. This recommendation suggests that all abnormal balances need to be corrected, when in fact some abnormal balances are correct and supported. However, explanations for abnormal balances that are inaccurate should be required, but we believe a materiality level should be implemented.

Detailed guidance should be issued specifying the format to be used for our electronic submissions. Presently, the guidance for submission of quarterly and annual trial balance data is silent on these "required" detailed explanations. We will provide detailed explanations with future trial balance submissions after we have received guidance on the proper format.

Please call me at 703-614-0971 with any questions.

We appreciate the opportunity to provide these comments.


William J. Bader
Deputy Director

Uniformed Services University of the Health Sciences Comments



OFFICE OF THE
PRESIDENT

UNIFORMED SERVICES UNIVERSITY OF THE HEALTH SCIENCES
4301 JONES BRIDGE ROAD
BETHESDA, MARYLAND 20814-4799



June 2, 2000

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Response to Draft Audit Report D2000FA-0043.001, "Compilation of the
FY 1999 Financial Statements for Other Defense Organization - General
Funds"

Attached is the Uniformed Services University of the Health Sciences (USUHS)
response to the draft audit report. We appreciate the opportunity to comment on the draft
audit report. Please contact Mr. Bobby D. Anderson, Director, Review and Evaluation,
USUHS (301-295-3116) if you require additional information

A handwritten signature in cursive script, appearing to read "Charles R. Manning, F.S.I.", is written over the typed name of James A. Zimble, M.D.

James A. Zimble, M.D.
President, USUHS

Attachment:
As stated

**Inspector General, Department of Defense
Uniformed Services University of the Health Sciences
Response to IG, DoD, Draft Audit D2000FA-0043.001**

**Part I - Audit Results
Compilation of the FY 1999 Financial Statements for Other Defense Organizations -
General Funds**

Recommendation 1. Work aggressively to correct abnormal balances before submission to the DFAS Center for Sustaining Forces - Indianapolis and provide explanations for abnormal balances that cannot be corrected.

Management Response: Concur. The University uses a unique accounting system, the College and University Financial System (CUFS). The University's Financial Management Office (FMG) in working with DFAS-DE/OCU has discovered that the \$1,106,525.76 in general ledger accounts 131100, 131300, 231100, and 231200 should have been explained in footnotes when submitting the CUFS trial balance to DFAS-IN.

Corrective Action: USUHS/FMG will submit footnotes to the CUFS trial balance for general ledger account codes 131100, 131300, 231100, and 231200.

Planned completion date: August 31, 2000

Management Response: Concur. The remaining \$6,453,679.77 is the result of errors that occurred when DFAS-IN performed the crosswalk from the CUFS chart of accounts to the DoD chart of accounts. The University is in the process of locating an alternative financial system that would alleviate the crosswalk process.

Corrective Action: The DFAS-DE accountant who supports USUHS will contact DFAS-IN to inform them of their crosswalk errors and offer to provide them additional training

Planned completion date: August 31, 2000

Recommendation 2. Correct abnormal balances before submission to the Defense Finance Accounting Service Indianapolis Center's Chief Financial Officer Team for consolidation into trial balances supporting the annual financial statements for Other Defense Organizations.

Revised
Recommendation
A.2.a.

Management Response: Concur. The University electronically submits monthly financial statements that are downloaded by DFAS. These reports are available the first Tuesday of each month.

Corrective Action: Annual financial statements submitted to DFAS-IN/CFO will have corrected balances, or footnotes, included in the report.

Planned completion date: September 29, 2000

Recommendation 3. Provide detailed explanations for abnormal balances that cannot be corrected and are included on quarterly and annual submissions to the Defense Finance and Accounting Service Center for Sustaining Forces-Indianapolis Chief Financial Officer Team.

Revised
Recommendation
A.2.b.

Management Response: Concur. The University electronically submits monthly financial statements that are downloaded by DFAS. DFAS then uses these reports to compile quarterly reports. These reports are available the first Tuesday of each month.

Corrective Action: The University will provide detailed explanations of abnormal balances by including footnotes in quarterly and annual submissions.

Planned completion date: Quarterly reports as of June 30, 2000, Annual submission as of September 30, 2000.

Audit Team Members

The Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD, prepared this report.

F. Jay Lane
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