

A *udit*



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COMPILATION OF THE FY 1999 ARMY GENERAL FUND
FINANCIAL STATEMENTS AT THE DEFENSE FINANCE
AND ACCOUNTING SERVICE INDIANAPOLIS CENTER

Report No. D-2000-160

July 12, 2000

Office of the Inspector General
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Acronyms

AAA
CFOFS
DFAS

Army Audit Agency
Chief Financial Officers Financial System
Defense Finance and Accounting Service



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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ARLINGTON, VIRGINIA 22202

July 12, 2000

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE

SUBJECT: Audit Report on Compilation of the FY 1999 Army General Fund
Financial Statements at the Defense Finance and Accounting Service
Indianapolis Center (Report No. D-2000-160)

We are providing this report for your information and use. This audit was performed in response to the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994. We considered management comments on a draft of this report when preparing the final report.

The Defense Finance and Accounting Service comments conformed to the requirements of DoD Directive 7650.3; therefore, additional comments are not required.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Richard B. Bird at (703) 604-9159 (DSN 664-9159) (rbird@dodig.osd.mil) or Mr. Jack L. Armstrong at (317) 510-3846 (DSN 664-3846) (jarmstrong@dodig.osd.mil). See Appendix C for the report distribution. The audit team members are listed inside the back cover.

A handwritten signature in cursive script that reads "David K. Steensma".

David K. Steensma
Deputy Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. D-2000-160

(Project No. OFI-2116)

July 12, 2000

Compilation of the FY 1999 Army General Fund Financial Statements at the Defense Finance and Accounting Service Indianapolis Center

Executive Summary

Introduction. The Defense Finance and Accounting Service Indianapolis Center maintains the Army departmental accounting records and compiles the Army General Fund financial statements. This audit was performed in response to the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994. The Chief Financial Officers Act requires the Inspector General, DoD, to audit the financial statements of DoD organizations in accordance with generally accepted Government auditing standards. We delegated the audit of the FY 1999 Army General Fund financial statements to the Army Audit Agency, but we assisted them by performing some of the audit work at the Indianapolis Center. The Army Audit Agency disclaimed an opinion on the FY 1999 Army General Fund financial statements, and we concurred with the disclaimer of opinion. The FY 1999 Army Consolidated Balance Sheet reported total assets of \$72.3 billion and total liabilities of \$34.9 billion. The consolidated Statement of Net Cost reported net program costs of \$69.8 billion for the period ending September 30, 1999. The combined Statement of Budgetary Resources reported total budgetary resources of \$90.6 billion.

Objective. Our objective was to determine whether the Defense Finance and Accounting Service Indianapolis Center consistently and accurately compiled financial data from field organizations and other sources for the FY 1999 Army General Fund financial statements. We also reviewed the management control program as it related to the objective.

Results. The Defense Finance and Accounting Service Indianapolis Center's compilation of financial data from field entities and other sources into the FY 1999 Army General Fund financial statements was not in compliance with applicable laws and regulations.

The Defense Finance and Accounting Service Indianapolis Center processed 380 accounting entries, valued at \$469.7 billion, while compiling the FY 1999 Army General Fund financial statements. Although the value of unsupported accounting entries decreased from about \$672.9 billion in FY 1998 to \$290.2 billion in FY 1999, the Army General Fund financial statements still were not auditable. Also,

85 accounting entries, valued at about \$60.0 billion, were not recorded in the accounting records supporting the FY 1999 Army General Fund financial statements. As a result, the FY 1999 Army General Fund financial statements contained unsupported accounting data and could not be reconciled to supporting accounting records.

See Appendix A for details of the management control program as it relates to controls over the automated processes used to compile the FY 1999 Army General Fund financial statements.

Summary of Recommendations. We recommend that accounting entries prepared to correct discrepancies between sources of accounting data be documented, with an explanation of the reason for the discrepancy in the source data amounts. Further, explanations should be documented as to how the proper authoritative source determined that the entries included in the accounting entries are correct. We recommend establishing independent quality assurance reviews of accounting entries. We also recommend full integration of the accounting entry preparation process into the compilation process by establishing an automated bridge for accounting entries.

Management Comments. The Defense Finance and Accounting Service concurred with all recommendations except establishing independent quality assurance reviews of accounting entries. Instead, the Defense Finance and Accounting Service proposed requiring specific approval of supporting documentation as part of the accounting entry approval process. See the Finding section for the discussion of management comments and Management Comments for the complete text of management comments.

Audit Response. We consider the comments and proposed actions from the Defense Finance and Accounting Service to be responsive to the recommendations. Although we continue to believe that independent quality assurance reviews of accounting entries are necessary to ensure proper preparation of accounting entries, we accept the alternative proposal at this time and will see how it works during our review of accounting entries for the audit of the FY 2000 Army General Fund financial statements.

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Background

This is the second in a series of reports issued by the Inspector General, DoD, related to the Army General Fund financial statements. The first report was on our oversight of the Army Audit Agency (AAA) audit of the FY 1999 Army General Fund financial statements. This report summarizes the compilation process at the Defense Finance and Accounting Service (DFAS) Indianapolis Center.

Chief Financial Officers Act. This audit was performed in response to the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994. The Chief Financial Officers Act requires the annual preparation and audit of financial statements for trust funds, revolving funds, and substantial commercial activities of Executive departments and agencies, as well as Government corporations. The Chief Financial Officers Act also requires the Inspectors General, or appointed external auditors, to audit financial statements in accordance with generally accepted Government auditing standards and other standards established by the Office of Management and Budget.

Federal Financial Management Improvement Act of 1996. The Federal Financial Management Improvement Act of 1996 requires each Federal agency to implement and maintain financial management systems that comply with Federal financial management system requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level.

Role of the Defense Finance and Accounting Service Indianapolis Center. The DFAS Indianapolis Center, Indianapolis, Indiana, provides finance and accounting support to the Army and the Defense agencies. Support includes maintaining departmental accounting records and preparing financial statements from general ledger trial balances and financial data on the status of appropriations submitted by DoD field accounting entities and other sources. However, the compilation process is complicated because financial data submitted to DFAS Indianapolis Center are not generated by integrated, transaction-driven, general ledger accounting systems.

The Compilation Process. Since FY 1991, DFAS Indianapolis Center used a complex interim process to combine financial information from many accounting and budgetary subsystems to compile the Army General Fund financial statements. At fiscal year-end, field accounting entities supported by DFAS Indianapolis Center submitted a general ledger trial balance directly to the departmental general ledger module of the Headquarters Accounting and Reporting System. The general ledger data were consolidated into several microcomputer databases. General ledger adjustments were accumulated in an additional database. Adjustments were made for many reasons, including

changing general ledger accounts to match certified status-of-appropriations data, to record data received from nonaccounting sources on selected assets and liabilities, and to record auditor-recommended adjustments. After the general ledger adjustments were made, DFAS Indianapolis Center used a variety of microcomputer programs and applications to convert the databases into the FY 1999 Army General Fund financial statements. The Chief Financial Officers Reporting Team of the DFAS Indianapolis Center Accounting Directorate is responsible for compiling the Army General Fund financial statements.

FY 1999 Army General Fund Financial Statements. The FY 1999 Army General Fund financial statements consisted of the consolidated balance sheet, consolidated Statement of Net Cost, consolidated Statement of Changes in Net Position, combined Statement of Budgetary Resources, and combined Statement of Financing, along with the supporting footnotes, supplementary schedules, and a management overview. The FY 1999 Army Consolidated Balance Sheet reported total assets of about \$72.3 billion and total liabilities of about \$34.9 billion as of September 30, 1999. The FY 1999 Army Consolidated Statement of Net Cost reported net program costs of about \$69.8 billion for the fiscal year ending September 30, 1999. The combined Statement of Budgetary Resources reported total budgetary resources of \$90.6 billion.

Audit of the FY 1999 Army General Fund Financial Statements. We delegated the FY 1999 audit of the Army General Fund financial statements to AAA. We assisted AAA by performing some audit work at DFAS Indianapolis Center, including examining the processes used to prepare the FY 1999 Army General Fund financial statements. The AAA disclaimed an opinion on the FY 1999 Army General Fund financial statements, and we concurred with the disclaimer of opinion. The AAA could not express an opinion on the financial statements primarily because of continual problems with inadequate accounting systems, insufficient audit trails, and procedural problems.

Objectives

The audit objective was to determine whether DFAS Indianapolis Center consistently and accurately compiled financial data from field organizations and other sources for the FY 1999 Army General Fund financial statements. We also reviewed the management control program as it related to the objective.

See Appendix A for a discussion of the audit process, the management control program at DFAS Indianapolis Center, and the management control weakness found during our audit. See Appendix B for a list of prior audits at DFAS Indianapolis Center related to the audit objective.

Accounting Entries

The DFAS Indianapolis Center processed 380 accounting entries, valued at \$469.7 billion, while compiling the FY 1999 Army General Fund financial statements. Of the 380 accounting entries, 192 were unsupported accounting entries, valued at about \$290.2 billion. Also, DFAS Indianapolis Center did not record 85 accounting entries, valued at about \$60.0 billion, in the accounting records supporting the FY 1999 Army General Fund financial statements. The 192 accounting entries were unsupported because DFAS Indianapolis Center did not fully implement or enforce the DFAS guidance on the preparation of accounting entries. The DFAS Indianapolis Center did not record the 85 accounting entries in the accounting records because it did not adequately integrate new automated improvements into the compilation process. As a result, the FY 1999 Army General Fund financial statements contained unsupported accounting data and could not be reconciled to supporting accounting records. Consequently, the FY 1999 Army General Fund financial statements were not auditable.

Preparing Accounting Entries

The DFAS Indianapolis Center prepared 380 accounting entries, valued at about \$469.7 billion, while compiling the FY 1999 Army General Fund financial statements. The entries included 192 unsupported accounting entries, valued at about \$290.2 billion. Table 1 summarizes the values of accounting entries that DFAS Indianapolis Center made to the general ledger for FYs 1998 and 1999.

Purpose of Accounting Entries	FY 1998	FY 1999
Forcing general ledger accounting data to match certified budgetary status-of-appropriations data	\$511.8	\$130.5
Buyer-seller adjustments	-	60.9
Net position adjustments	161.1	12.5
Other adjustments to correct discrepancies between data sources	-	5.5
Subtotal: Unsupported Accounting Entries to Correct Discrepancies	\$672.9	\$209.4
Other unsupported adjustments	-	80.8
Total: Unsupported Accounting Entries	\$672.9	\$290.2
All Others – Supported	320.4	175.4
12 vouchers not reviewed	-	4.1
Total Accounting Entries	\$993.3	\$469.7

Accounting Entries to Correct Discrepancies. While preparing the FY 1999 Army General Fund financial statements, DFAS Indianapolis Center prepared 141 accounting entries, for about \$209.4 billion, to correct discrepancies between sources of accounting data. The DFAS issued guidance, Defense Finance and Accounting Service Memorandum, "Journal Voucher Guidance," October 28, 1999, stating the following:

When the proper authoritative source has determined that there is a discrepancy in data between two or more sources, a correcting journal voucher must be prepared. Evidence to support this type of journal voucher includes source data documentation and related analysis documenting the correct amount. In addition, the journal voucher must document why there was a discrepancy in the source data amounts and how the proper authoritative source determined that the entries included on the journal voucher are correct.

In this report, journal vouchers are called accounting entries. The DFAS Indianapolis Center did not implement the guidance.

- DFAS Indianapolis Center personnel prepared two accounting entries for about \$130.5 billion, to force general ledger accounting data to agree with budgetary accounting data. They prepared the accounting entries because the accounting systems used to compile the FY 1999 Army General Fund financial statements did not conform to the general ledger method of accounting, and DFAS Indianapolis Center personnel believed budgetary accounting data to be more accurate. However, the adjustments did not include evidence supporting that belief. The two accounting entries for \$130.5 billion were unsupported because DFAS Indianapolis Center personnel made the adjustment to force general ledger accounting data to agree with budgetary accounting data without attempting to reconcile the differences between the two data sources or to determine which data source was correct.
- DFAS Indianapolis Center personnel prepared 93 accounting entries, for about \$60.9 billion, to force intragovernmental transactions between trading partners to agree. The personnel forced buyers' transaction data that DFAS Indianapolis Center recorded to agree with sellers' transaction data recorded by the other DFAS centers. Those adjustments were not supported because DFAS Indianapolis Center personnel did not reconcile the differences between the two data sources to determine which was correct. Office of the Under Secretary of Defense (Comptroller) personnel stated that the guidance requiring the buyer and seller data to match was the result of requirements that the U.S. Treasury issued for Federal agencies' Centralized Trial Balance Systems submission.

-
- DFAS Indianapolis Center personnel prepared 29 accounting entries, for about \$12.5 billion, to force the net position amount reported on the Statement of Changes in Net Position to agree with the net position amount reported on the balance sheet. The accounting entries were necessary because the accounting systems used to compile the Army General Fund financial statements did not support the reporting of equity accounts. The accounting entries were unsupported because DFAS Indianapolis Center personnel did not reconcile the differences between the two statements to demonstrate which was correct.
 - DFAS Indianapolis Center personnel prepared 17 other accounting entries, for about \$5.5 billion, to correct discrepancies between sources of accounting data, generally to force general ledger accounting data to match reports prepared from other sources of data. DFAS Indianapolis Center personnel did not reconcile the differences between the two data sources to determine which was correct.

The DFAS Indianapolis Center relied on its Headquarters Accounting and Reporting System to prepare the FY 1999 Army General Fund financial statements. However, that system did not meet accounting system requirements. Until DFAS implements an integrated, transaction-driven accounting system Army-wide, DFAS Indianapolis Center must use accounting data from often conflicting sources to prepare the Army General Fund financial statements. If DFAS does not reconcile the differences among the conflicting sources of accounting data, DFAS has no assurance that it is using the most accurate accounting data for financial reporting. The DFAS Indianapolis Center should fully implement the DFAS journal voucher guidance on the preparation of accounting entries to correct discrepancies between sources of accounting data.

Other Accounting Entries. While preparing the FY 1999 Army General Fund financial statements, DFAS Indianapolis Center personnel prepared 227 accounting entries, valued at about \$256.2 billion, for reasons other than to correct discrepancies between sources of accounting data. Of the accounting entries, 51 entries, for about \$80.8 billion, were not supported by the documentation that the DFAS guidance on journal vouchers required. Of the unsupported accounting entries, 19 entries, valued at \$2.8 billion, were for corrections of errors made in previously prepared entries. DFAS Indianapolis Center personnel prepared the remaining accounting entries (32 for \$78 billion) to record data provided by other than accounting sources, or “data calls.” The DFAS guidance on journal vouchers states the following:

Frequently, source-entry information is provided by data calls where the data are not recorded on a detailed, transaction basis. Thus, journal vouchers must be prepared to record the summarized data call amounts, so these amounts can be recorded in the general ledger trial balance. Data call information, in most cases, is provided by an independent source. Evidence to support the journal voucher includes

the transmission record of these data in conjunction with a determination by the designated authoritative source (i.e., the releaser of the data) that the source data are valid.

Although DFAS Indianapolis Center had generally met the DFAS requirements in the previous year, support for the accounting entries prepared for FY 1999 was inconsistent. For example, the two accounting entries made to record environmental liabilities, about \$49.9 billion, did not include the data transmission record to prove that the data were provided by an authoritative source. In previous years, the accounting entries made to record environmental liabilities had been properly documented. Because the Army did not have an adequate accounting system, the preparation of the Army General Fund financial statements depended on using accounting entries to record accounting data from sources outside normal accounting channels. If the accounting entries are not adequately supported, the financial statements will continue to be unauditible.

Implementing and Enforcing DFAS Guidance. The DFAS Indianapolis Center did not fully implement or enforce the DFAS guidance on the preparation of journal vouchers. DFAS Indianapolis Center did not implement requirements that DFAS established for documenting accounting entries made to correct discrepancies between sources of accounting data. In addition, standards of documentation for other types of accounting entries, generally met in the previous year, were not consistently enforced for accounting entries prepared for FY 1999. The preparation and review of all the accounting entries prepared at year-end were performed entirely within the Chief Financial Officers Reporting Team. In previous years, a separate team had performed quality assurance reviews. However, that practice was discontinued for FY 1999, so no independent quality assurance reviews took place to ensure compliance with the DFAS guidance. The DFAS Indianapolis Center should reestablish independent quality assurance reviews to implement and enforce DFAS guidance on accounting entries.

Effects of Accounting Entries. Unsupported accounting entries had a material impact on the FY 1999 Army General Fund financial statements. Table 2 shows the effects of departmental accounting entries for three selected financial statement lines.

Table 2. Effects of Departmental Accounting Entries on the FY 1999 Army General Fund Financial Statements for Selected Financial Statement Lines (amounts in billions)				
Selected Financial Statement Line	Unadjusted Balance	Unsupported Accounting Entries	Other Accounting Entries	Adjusted Balance
Fund Balance With Treasury	\$36.9	(\$4.7)	\$0.0	\$32.2
Accounts Payable	6.4	(3.7)	3.5	6.2
Unexpended Appropriations	111.2	(85.8)	(0.7)	24.7

Because of the material impact of unsupported accounting entries, the FY 1999 Army General Fund financial statements were materially influenced by unsupported accounting data. As a result, the FY 1999 Army General Fund financial statements were not auditable.

Improving the Compilation Process

The DFAS Indianapolis Center prepared 85 accounting entries, valued at about \$60.0 billion, that it did not record in the accounting records supporting the FY 1999 Army General Fund financial statements. The accounting records did not record the 85 accounting entries because DFAS Indianapolis Center did not adequately integrate automated improvements into the financial statement compilation process.

Compilation Process Improvement. In September 1999, DFAS fielded the Chief Financial Officers Financial System (CFOFS), an automated financial statement formatting tool. The purpose of CFOFS was to ensure that all DFAS centers produced compatible financial statements. However, the introduction of CFOFS required DFAS Indianapolis Center to add an additional step to its compilation process. To use CFOFS, DFAS Indianapolis Center personnel had to accumulate the Army General Fund financial statement data from the various Army accounting systems, convert the financial data from the DoD general ledger to the U.S. Government Standard General Ledger, and summarize the converted data at the program level. DFAS Indianapolis Center personnel then were to type the summarized data into a spreadsheet that CFOFS used to build the financial statements. To avoid the delays and risk of data entry error inherent in manually typing a large volume of numbers into a spreadsheet, the DFAS Indianapolis Center developed an automated bridge to load the accounting data into the CFOFS input spreadsheet.

Accounting Entry Preparation. The addition of the CFOFS also complicated the processing of accounting entries. Each accounting entry had to be recorded twice; once in the supporting accounting records, and once in the CFOFS journal voucher function. However, DFAS Indianapolis Center did not develop

an automated bridge to overcome the requirement for dual entry of accounting entries. During the months immediately after the end of FY 1999, DFAS Indianapolis Center personnel kept up with the requirement to enter each adjusting journal voucher into both the accounting records and CFOFS. As a result, the initial version of the FY 1999 Army General Fund financial statements could be reconciled to the supporting accounting records. However, to meet the February 2, 2000, statement deadline, DFAS Indianapolis Center personnel recorded accounting entries into CFOFS only.

Reconciliation to Accounting Records. Because the supporting accounting records did not include accounting entries, the accounting records and the financial statements had material differences, as shown in Table 3.

Table 3. Differences Between Supporting Accounting Records and the FY 1999 Army General Fund Financial Statements for Selected Financial Statement Lines (dollars in billions)				
Selected Financial Statement Line	Financial Data	Financial Statements	Difference: Amount	Difference: Percent
Liabilities Covered by Budgetary Resources	\$17.6	\$11.5	\$6.1	65
Program Costs: Intragovernmental	12.6	14.6	2.0	116
Net Cost of Operations	77.4	69.8	7.6	90

Because the FY 1999 Army General Fund financial statements could not be reconciled to the supporting accounting data, they could not be audited. The DFAS Indianapolis Center should fully integrate the preparation of accounting entries into the compilation process by establishing an automated procedure to load accounting entries recorded in the supporting accounting records into the CFOFS.

Conclusion

For more than 8 years, budgetary status-of-appropriations data and expenditure data were used to compile financial data for the Army General Fund financial statements. That interim method is not acceptable. The Army General Fund financial statements may not be auditable until an integrated, transaction-driven accounting system is implemented Army-wide. We addressed that condition in our audit report on the compilation of the FY 1998 Army General Fund financial statements; therefore, we do not discuss the matter further or make additional related recommendations in this report.

Until an integrated, transaction-driven accounting system is implemented Army-wide, DFAS Indianapolis Center must continue to rely on accounting entries to prepare the Army General Fund financial statements. The DFAS Indianapolis Center should implement and enforce the DFAS journal voucher guidance and should fully integrate the preparation of accounting entries into the compilation process. Unless the accounting entries are properly documented and recorded in the supporting financial records, the Army General Fund financial statements will not be auditable.

Recommendations, Management Comments, and Audit Response

We recommend that the Director, Defense Finance and Accounting Service Indianapolis Center:

1. Implement and enforce the Defense Finance and Accounting Service compilation guidance on the preparation of journal vouchers. Specifically:

a. Document accounting entries prepared to correct discrepancies between sources of accounting data with an explanation for the discrepancy in the source data amounts and the methods that the proper authoritative source used to determine that the amounts included in the accounting entry are correct.

Management Comments. The Defense Finance and Accounting Service concurred, stating that it would complete revised guidance implementing the recommended action by September 30, 2000.

b. Establish independent quality assurance reviews of accounting entries.

Management Comments. The Defense Finance and Accounting Service partially concurred, suggesting as an alternate solution the revision of existing guidance to require managers reviewing accounting entries to specifically approve supporting documentation as part of the review process. The Defense Finance and Accounting Service estimates the alternative action to be completed by September 30, 2000. The Defense Finance and Accounting Service further stated that an additional independent quality assurance review would not improve managerial controls over the preparation of accounting entries.

Audit Response. Although the Defense Finance and Accounting Service partially concurred, we consider the comments responsive to the recommendation. While we continue to believe that independent quality assurance reviews of accounting entries are necessary to ensure proper

preparation of accounting entries, we will accept the proposed corrective action and see how it works during our review of accounting entries for the audit of the FY 2000 Army General Fund financial statements.

2. Fully integrate the accounting entry preparation process into the compilation process by establishing an automated bridge for adjustments between the Army General Fund journal voucher data file and the Chief Financial Officers Financial System.

Management Comments. The Defense Finance and Accounting Service concurred, stating that the Chief Financial Officers Financial System will be replaced by the Defense Departmental Reporting System, which will have automated input for all transactions. The estimated completion date for this action is December 31, 2000.

Appendix A. Audit Process

Scope and Methodology

Audit Work Performed. Our review of the compilation of the FY 1999 Army General Fund financial statements covered processes, procedures, and related management controls that DFAS Indianapolis Center used to consolidate financial data from field organizations and other sources. The data were used to prepare the version of the Army General Fund financial statements submitted to the auditors on February 3, 2000. Our examination included a review of the following processes:

- 205 journal vouchers adjustments, valued at \$67.6 billion, made to status data;
- 380 accounting entries, valued at \$469.7 billion, made to general ledger data; and
- the transfer of status-adjusted general ledger data to the printed financial statements, including the overview, footnotes, and supplementary schedules.

Limitations to Audit Scope. We did not examine the accuracy of data that DoD field accounting entities or other sources submitted or attempt to reconcile data with subsidiary records. Examination of the data is the responsibility of AAA. We compared the Fund Balance With Treasury recorded by the U.S. Treasury for the Army General Fund with the Fund Balance With Treasury reported in the Army General Fund financial statements. We also reviewed the closing positions of Army General Fund appropriations for deficit balances and general ledger trial balances for reasonableness.

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 DoD 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)**

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- **FY 2001 Performance Measure 2.5.1:** Reduce the number of noncompliant accounting and finance 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 objective and goal.

- **Financial Management 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 DoD. This report provides coverage of the Defense Financial Management high-risk area.

Use of Computer-Processed Data. To achieve the audit objective, we relied primarily on computer-processed data in the SOURCE21, JVDATA, ODOAR, and OSCFO databases. We tested the data and determined that they were incomplete. However, when the data are reviewed in context with other available evidence, we believe that the opinions, conclusions, and recommendations in this report are valid. Field-level systems were not included in our review. Therefore, we can comment only on the reliability of data processed after receipt by DFAS Indianapolis Center.

Audit Type, Period, and Standards. We performed this financial-related audit at DFAS Indianapolis Center from August 1999 through March 2000. The audit was made in compliance with auditing standards established by the Comptroller General of the United States, as implemented by the Inspector General, DoD, and with Office of Management and Budget guidance; however, we limited our scope as noted in this appendix. The audit included such tests of management controls and management's compliance with laws and regulations as we considered necessary.

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

Management Control Program

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

Scope of the Review of the Management Control Program. We evaluated management controls over the DFAS Indianapolis Center's processes and procedures for consolidating financial data from field organizations and other sources for preparation of the FY 1999 Army General Fund financial statements.

Adequacy of Management Controls. A material management control weakness, as defined by DoD Instruction 5010.40, Management Control Program Procedures, August 28, 1996, existed in the DFAS Indianapolis Center's procedures for compiling the FY 1999 Army General Fund financial statements. Management controls at DFAS Indianapolis Center were not adequate to ensure that accounting entries were adequately documented and recorded in Army accounting records. Recommendations 1. and 2. in this report, if implemented, will improve controls over accounting entries. A copy of the report will be provided to the senior official responsible for management controls at DFAS Indianapolis Center.

Adequacy of Management's Self-Evaluation. DFAS Indianapolis Center officials identified chief financial officers reporting as an assessable unit but did not perform an evaluation because no evaluations were scheduled to be completed until FY 2001.

Appendix B. Summary of Prior Coverage

General Accounting Office

General Accounting Office Report No. AFMD-92-83 (OSD Case No. 8674), "Financial Audit: Examination of the Army's Financial Statements for Fiscal Year 1991," August 7, 1992.

General Accounting Office Report No. AFMD-93-1 (OSD Case No. 9276-E), "Financial Audit: Examination of the Army's Financial Statements for Fiscal Years 1992 and 1991," June 30, 1993.

Inspector General, DoD

Inspector General, DoD, Report No. 99-153, "Compilation of the FY 1998 Army General Fund Financial Statements at the Defense Finance and Accounting Service Indianapolis Center," May 12, 1999.

Inspector General, DoD, Report No. 98-212, "Compilation of the FY 1997 Army General Fund Financial Statements at the Defense Finance and Accounting Service Indianapolis Center," September 24, 1998.

Inspector General, DoD, Report No. 98-120, "Compilation of the FY 1996 Army Financial Statements at the Defense Finance and Accounting Service Indianapolis Center," April 23, 1998.

Inspector General, DoD, Report No. 96-161, "Compilation of the FY 1995 and FY 1996 DoD Financial Statements at the Defense Finance and Accounting Service Indianapolis Center," June 13, 1996.

Inspector General, DoD, Report No. 94-168, "Defense Finance and Accounting Service Work on the Army FY 1993 Financial Statements," July 6, 1994.

Appendix C. Report Distribution

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Other Defense Organizations

Director, Defense Finance and Accounting Service
Director, Defense Finance and Accounting Service Indianapolis Center

Non-Defense Federal Organizations

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Defense Finance and Accounting Service Comments



DEFENSE FINANCE AND ACCOUNTING SERVICE

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JUN - 9 2000

DFAS-HQ/ASF

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

SUBJECT: Audit Report on Compilation of the FY 1999 Army General Fund Financial
Statements at the Defense Finance and Accounting Service Indianapolis Center
(Project No. D2000FI-0064.001) (Formerly Project No. OFI-2116)

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-IN/XP

**DFAS Comments on DoDIG Audit Report on Compilation of the FY 1999
Army General Fund Financial Statements at the Defense Finance and
Accounting Service Indianapolis Center (Project No. D2000FI-0064.001)
(formerly Project No. 0FI-2116)**

Responses to Recommendations

We recommend that the Director, Defense Finance and Accounting Service Indianapolis Center:

Recommendation 1. Implement and enforce the Defense Finance and Accounting Service compilation guidance on the preparation of journal vouchers. Specifically:

a. Document accounting entries prepared to correct discrepancies between sources of accounting data with an explanation for the discrepancy in the source data amounts and the methods that the proper authoritative source used to determine that the amounts included in the accounting entry are correct.

DFAS Management Comments: Concur. The Defense Finance and Accounting Service Headquarters (DFAS-HQ) is revising procedures for the preparation of accounting entries and journal vouchers. The revised procedures will include specific examples of the level of documentation needed to properly support each journal voucher. This guidance will be drafted in August 2000 and presented to the Department of Defense (DoD) Audit Committee for review. DFAS-HQ is working with the Office of the Under Secretary of Defense (Comptroller) to include the guidance in the DoD Financial Management Regulation. DFAS-HQ will require all DFAS centers to implement the revised guidance.

Completion Date: September 30, 2000.

b. Establish independent quality assurance reviews of accounting entries.

DFAS Management Comments: Partially concur. The DFAS Indianapolis Center prepares accounting entries as prescribed by DFAS-HQ guidance, "Journal Voucher Guidance," dated October 13, 1999 (attached). Instructions therein direct managerial internal controls at each level of management at the DFAS Centers to ensure proper oversight of journal voucher preparation. The DFAS will require in the revised guidance the specific approval of the supporting documentation as a part of the accounting entry approval process. However, we perceive no added value in having accounting entries undergo a special additional quality assurance review. *

Recommendation 2: Fully integrate the accounting entry preparation process into the compilation process by establishing an automated bridge for adjustments between the Army General Fund journal voucher data file and the Chief Financial Officers Financial System.

DFAS Management Comments: Concur. The Army General Fund journal voucher data file has a computerized bridge that requires manual intervention, which transfers all transactions to the Chief Financial Officers Financial System (CFOFS). For FY 2000, CFOFS will be replaced with the Defense Departmental Reporting System (DDRS). DDRS eventually will have automated input for all transactions.

Estimated Completion Date: December 31, 2000.

Audit Team Members

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

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