

A *udit*



R *eport*

ACCOUNTING ENTRIES MADE BY THE
DEFENSE FINANCE AND ACCOUNTING SERVICE OMAHA
TO U.S. TRANSPORTATION COMMAND DATA
REPORTED IN DOD
AGENCY-WIDE FINANCIAL STATEMENTS

Report No. D-2001-107

May 2, 2001

Office of the Inspector General
Department of Defense

Additional Copies

To obtain additional copies of this audit report, visit the Inspector General, DoD Home Page at www.dodig.osd.mil/audit/reports or contact the Secondary Reports Distribution Unit of the Audit Followup and Technical Support Directorate at (703) 604-8937 (DSN 664-8937) or fax (703) 604-8932.

Suggestions for Future Audits

To suggest ideas for or to request future audits, contact the Audit Followup and Technical Support Directorate at (703) 604-8940 (DSN 664-8940) or fax (703) 604-8932. Ideas and requests can also be mailed to:

OAIG-AUD (ATTN: AFTS Audit Suggestions)
Inspector General, Department of Defense
400 Army Navy Drive (Room 801)
Arlington, VA 22202-4704

Defense Hotline

To report fraud, waste, or abuse, contact the Defense Hotline by calling (800) 424-9098; by sending an electronic message to Hotline@dodig.osd.mil; or by writing to the Defense Hotline, The Pentagon, Washington, DC 20301-1900. The identity of each writer and caller is fully protected.

Acronyms

DFAS	Defense Finance and Accounting Service
JV	Journal Voucher
USTRANSCOM	U.S. Transportation Command



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

May 2, 2001

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE

SUBJECT: Audit Report on Accounting Entries Made by the Defense Finance and
Accounting Service Omaha to U.S. Transportation Command Data
Reported in DoD Agency-Wide Financial Statements
(Report No. D-2001-107)

We are providing this report for review and comment. We performed this audit 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.

Management comments from the Defense Finance and Accounting Service were partially responsive. DoD Directive 7650.3 requires that all recommendations be resolved promptly. Therefore, we request that the Defense Finance and Accounting Service reconsider its position and provide additional comments on recommendations 2.a., 2.b. and 2.c. by June 29, 2001.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Mr. Brian Flynn at (703) 604-9489 (DSN 664-9489) (bflynn@dodig.osd.mil) or Mr. W. Andy Cooley at (303) 676-7393 (DSN 926-7393) (wcooley@dodig.osd.mil). See Appendix D for the report distribution. The audit team members are listed inside the back cover.

David K. Steensma

David K. Steensma
Acting Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. D-2001-107

(Project No. D2000FD-0205)

May 2, 2001

Accounting Entries Made by the Defense Finance and Accounting Service Omaha to U.S. Transportation Command Data Reported in DoD Agency-Wide Financial Statements

Executive Summary

Introduction. We prepared this report in response to Public Law 101-576, the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994. This is one of a series of reports on the preparation and use of journal voucher and other accounting entries by Defense Finance and Accounting Service field sites. This audit focused on accounting entries made by the Defense Finance and Accounting Service Omaha to adjust U.S. Transportation Command financial data. During FY 2000, Omaha processed 2,466 accounting entries by journal vouchers, valued at \$173.6 billion, related to U.S. Transportation Command. Of these accounting entries, we examined those made in March 2000.

Objectives. The overall objective was to determine whether adequate procedures were used by Defense Finance and Accounting Service field sites in processing and reporting U.S. Transportation Command data in the FY 2000 DoD Agency-Wide Financial Statements. Specifically, we identified and evaluated journal vouchers and other accounting entries made by the Defense Finance and Accounting Service Omaha to U.S. Transportation Command financial data.

Results. The Defense Finance and Accounting Service Omaha made \$11.6 billion in unsupported accounting entries out of the \$12.6 billion total accounting entries made in March 2000 by journal voucher to U.S. Transportation Command Working Capital Fund records. Further, of the unsupported entries, \$.2 billion were also not properly approved. Our results for March 2000 suggest the potential exists for additional unsupported accounting entries among the \$173.6 billion in total journal vouchers processed by Omaha for the Command during FY 2000. The administrative documentation problems identified have resulted in material control weaknesses that affect the accuracy of the accounting records and the FY 2000 DoD Agency-Wide Financial Statements. After alerting management to this condition, local guidance and additional headquarters guidance on journal vouchers was issued, which should improve the accuracy and reliability of reporting on the FY 2001 financial statements.

Summary of Recommendations. We recommend that the Director, Defense Finance and Accounting Service Omaha, fully implement existing guidance for accounting entries made by journal voucher by providing adequate supporting documentation and obtaining appropriate approval. We further recommend that the Director, Defense Finance and Accounting Service, revise journal voucher guidance to provide an adequate basis for approving journal vouchers and develop performance standards and an action plan for implementing the journal voucher guidance.

Management Comments. The Director for Accounting, Defense Finance and Accounting Service agreed to fully implement the applicable provisions of the “DoD Financial Management Regulation” and internal guidance on journal vouchers. The Director stated that subsequent internal reviews determined that supporting documentation was available for \$11.6 billion of the unsupported entries, although not always attached to the journal vouchers. The Director stated that adequate supporting documentation was already required as a basis for approving accounting entries. As an alternative to developing performance standards and an action plan, the Director planned to provide additional training on accounting entries to each site and monitor the progress of improvements through internal control operational reviews. See the finding for a more comprehensive discussion of management comments and the Management Comments section for the complete text of management comments.

Audit Response. The comments are partially responsive. The Defense Finance and Accounting Service comments on the recommendations to implement DoD and internal agency guidance are responsive. Although providing some assurance on the validity of the transactions, the agency’s internal review did not alter the fact that \$11.6 billion of accounting entries were unsupported when we performed our audit. Specifically, management had not ensured that supporting documentation was attached or adequately referenced to the journal voucher package. This condition was found even though accounting entries had been approved over 90 days before we started our review. However, management initiatives should result in improvements for FY 2001. Management comments were not responsive to recommended revisions to agency guidance to require that accounting entries be adequately supported when presented for approval. Internal agency guidance states that accounting entries may be approved 5 days before all supporting documentation is made available to the approving official. The guidance should be changed to require that all supporting documentation be presented at the time of journal voucher approval. Also, although sound actions, the proposed alternatives to developing performance standards and action plans will not provide agency managers with an adequate basis for measuring the progress made in implementing the guidance issued on accounting entries. We request that the Defense Finance and Accounting Service provide additional comments by June 29, 2001.

Table of Contents

Executive Summary	i
Introduction	
Background	1
Objectives	2
Finding	
Adequacy of Accounting Entries	3
Appendixes	
A. Audit Process	
Scope	10
Methodology	11
Prior Coverage	11
B. General Guidance	12
C. Example of Unsupported Journal Voucher	13
D. Report Distribution	16
Management Comments	
Defense Finance and Accounting Service	19

Background

The audit was performed in response to the Chief Financial Officers Act of 1990 (Public Law 101-576, November 15, 1990), as amended by the Federal Financial Management Act of 1994 (Public Law 103-356, October 13, 1994). This report is one of a series of audit reports related to journal voucher (JV) and other accounting entries to DoD-wide data in the FY 2000 DoD Agency-Wide Financial Statements. Inspector General, DoD Report No. D-2000-179, "Department-Level Accounting Entries for FY 1999," August 18, 2000, states that the Defense Finance and Accounting Service (DFAS) processed \$7.6 trillion in department-level accounting entries in FY 1999. Because of prior report results, we determined that a review of accounting entries made at DFAS field sites included in these department-level accounting entries could provide insight on other problems related to the accounting entry process. There are a number of audit efforts underway throughout DoD to review FY 2000 accounting entries at the department-level and at different DFAS field sites. In this report, we identified and evaluated accounting entries made by DFAS Omaha to U.S. Transportation Command (USTRANSCOM) financial data. In addition, we determined whether reconciliations and other internal controls used by DFAS Omaha adequately ensured that USTRANSCOM data were complete, accurate, and consistent prior to transmission to DFAS.

U.S. Transportation Command. On April 18, 1987, the Secretary of Defense established the USTRANSCOM as a unified command to integrate global air, land, and sea transportation during wartime. In 1992, the role of USTRANSCOM expanded to include a peacetime mission, making them the single DoD-financial manager of all common-user transportation. Headquarters USTRANSCOM at Scott Air Force Base, Illinois, executes its mission through three Transportation Component Commands: the Military Traffic Management Command, Falls Church, Virginia; the Military Sealift Command, Washington, D.C.; and the Air Mobility Command, Scott Air Force Base, Illinois.

Financial Reporting. On October 1, 1997, the Under Secretary of Defense (Comptroller/Chief Financial Officer) transferred the cash management for USTRANSCOM to the Air Force working capital fund. However, for financial reporting purposes, USTRANSCOM remained part of the Other Defense Organizations included in the DoD Agency-wide financial statements. Finance and accounting functions for USTRANSCOM and the Transportation Component Commands gradually transitioned to DFAS Omaha from October 1996 to March 1998. DFAS Denver consolidates the financial data for USTRANSCOM and its Transportation Component Commands and prepares the DoD Agency-wide financial statements required by the Chief Financial Officers Act.

General Ledger Accounting Structure. USTRANSCOM and its Transportation Component Commands use different general ledger accounting structures. The USTRANSCOM, Headquarters, and its Air Mobility Command use the Air Force Industrial Fund general ledger structure. The Military Traffic Management Command uses the Army Industrial Fund general ledger structure. The Military Sealift Command at the time of our audit used the Department of the Navy Industrial Business Fund general ledger structure. In July 2000, the Military Sealift Command implemented a U.S. Standard General Ledger accounting structure.

Field Site Accounting Overview. As a DFAS Denver field site, DFAS Omaha performs operational-level accounting functions. The Transportation Component Commands' field-level activities process transactions and transmit the financial data to DFAS Omaha. After the journal entries and other adjustments have been made, DFAS Omaha creates a single trial balance for each Transportation Component Command, and provides the trial balances to DFAS Denver. DFAS Denver consolidates the trial balances, makes adjustments, and then provides the summarized accounting data to its customers.

Objectives

Our overall objective was to determine whether adequate procedures were used by DFAS field sites in processing and reporting USTRANSCOM data in the FY 2000 DoD Agency-Wide Financial Statements. Specifically, we identified and evaluated JV and other accounting entries made by DFAS Omaha to USTRANSCOM data included in the FY 2000 DoD Agency-Wide Financial Statements. See Appendix A for a discussion of the audit scope and methodology.

Adequacy of Accounting Entries

The Defense Finance and Accounting Service Omaha made \$12.6 billion in JV accounting entries to USTRANSCOM accounting records in March 2000, of which \$11.6 billion (92 percent) were not adequately supported. Further, \$.2 billion (2 percent) of the unsupported entries were not properly approved. These conditions occurred because:

- existing DoD guidance on the use and preparation of JVs was not followed and more recent guidance was not implemented at Defense Finance and Accounting Service Omaha;
- supporting documentation was nonexistent, incomplete, or did not support the amount of the accounting entry; and
- Defense Finance and Accounting Service Omaha personnel did not always obtain approval for the accounting entries.

Consequently, these material control weaknesses will affect the accuracy and reliability of the accounting records and the information included in the FY 2000 DoD Agency-Wide Financial Statements. Although we are unable to project our results over the \$173.6 billion in USTRANSCOM accounting entries processed by Defense Finance and Accounting Service Omaha during FY 2000, additional unsupported transactions may have occurred throughout the entire year.

Guidance

General Guidance. Appendix B provides details on specific guidance on accounting and administrative controls in the United States Code, Office of Management and Budget, and General Accounting Office publications. These requirements were incorporated in the following DoD regulation and agency guidance.

DoD Financial Management Regulation. DoD Regulation 7000.14-R, “DoD Financial Management Regulation,” volume 6A, “Reporting Policy and Procedures,” January 1998, as revised through April 2000, provides guidance on the roles and responsibilities of DFAS and its customers regarding financial reports and the treatment of transactions from which the financial data in the reports are derived. DoD Regulation 7000.14-R requires that DFAS adequately support and justify in writing all adjustments to the official accounting records. Documentation related to the adjustment must include the rationale and justification, the detail numbers and dollar amounts of errors or conditions that are associated with the transactions or records that are proposed for adjustment, and name and position of the approving official. Further, the guidance states that the documentation must provide an adequate audit trail to the adjusted or corrected transactions.

DoD Regulation 7000.14-R specifies that its focus is on financial reports at the DoD component departmental level and the financial transactions that support those

reports. DoD Regulation 7000.14-R further stipulates that additional guidance will be developed at a later date to cover intermediate and installation levels. However, the additional guidance was not issued. We believe that the adjustments made at the intermediate-level are financial transactions, which ultimately support the financial reports.

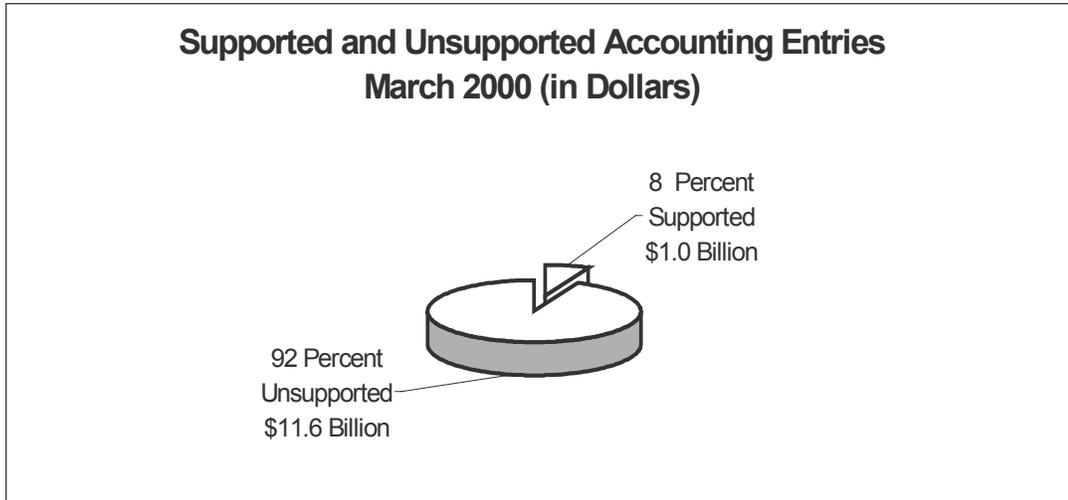
DFAS Guidance. In October 1999, the DFAS Director for Accounting issued a memorandum providing further guidance on the use and preparation of JVs. Specifically, the guidance states that all JVs must be:

- sequentially numbered by entity and reflected in a JV log;
- identified by specific JV category;
- reviewed to ensure proper recording of entries;
- adequately documented to support the validity and the amount of the transaction;
- authorized and approved by the appropriate approving authority;
- prepared, documented, submitted, approved, and entered employing segregated duties;
- annotated with the name, title, and office symbol of both the preparer and approver; and
- maintained in a central location and retained for 6 years.

Supporting Documentation and Approval

During March 2000, DFAS Omaha made 277 JV accounting entries with total debits of \$12.6 billion to accounting records of the USTRANSCOM working capital fund. DFAS Omaha consolidates the USTRANSCOM accounting data and provides monthly Transportation Component Commands trial balances to DFAS Denver. DFAS Denver further adjusts and consolidates the Transportation Component Commands data into the Departmental-level trial balances. The data are ultimately used to prepare the Other Defense Organizations working capital fund information included in the DoD Agency-wide financial statements.

Unsupported Accounting Entries. We reviewed the 277 USTRANSCOM JV accounting entries made by DFAS Omaha for March 2000. As illustrated in the figure below, DFAS Omaha did not support 186 JVs valued at \$11.6 billion in entries processed, and 91 JVs valued at \$1.0 billion were supported.



The JV accounting entries were unsupported because documentation was either incomplete, missing, or some entries were not properly approved. The table shows a breakdown of entries by category of discrepancy. It should be noted that several of the entries reviewed had multiple discrepancies that fell into more than one of the categories. Therefore, the dollar amounts in the table will not add up to the \$11.6 billion in total unsupported entries.

Unsupported Accounting Entries Table

<u>Category of Discrepancy</u>	<u>Number</u>	<u>Dollar Amount</u>
Incomplete documentation	138	\$10.1 Billion
No documentation	48	1.5 Billion
Inadequate explanation	55	.7 Billion
Lack of approval	28	.2 Billion

Incomplete Documentation. Supporting documentation was incomplete and did not fully support all dollar amounts on 138 of 277 JV accounting entries reviewed. In some cases the audit trails necessary for locating supporting documentation were either nonexistent or lacked sufficient detail. For example, the supporting documentation for 18 entries could not be reconciled to the JV accounting entry amount. On Military Sealift Command JV No. HQ156 (\$.4 million), the supporting data do not add up to the total amounts shown on the face of the JV. In another example, Military Sealift Command JV No. HQ139 (\$2.0 million) consisted of confusing handwritten notes we were unable to track to the debit/credit JV amounts (see Appendix C). The 138 entries were valued at \$10.1 billion.

No Documentation. Supporting documentation was missing from 48 of 277 JV accounting entries reviewed. For example, Air Mobility Command JV No. 424 (\$87.9 million) contained no documentation or explanation to support the entry. The 48 entries were valued at \$1.5 billion.

Inadequate Explanation. Supporting documentation did not contain an adequate, and in some cases, any explanation of the transaction on 55 of 277 JV accounting entries reviewed. For example, the explanation provided for Military Sealift Command JV No. HQ165 (\$8.4 million) was to correct three prior JV accounting entries. However, only partial information on two of the three JVs was attached to JV No. HQ165 and further explanation was not provided. The 55 entries were valued at \$.7 billion.

Lack of Approval. JV documentation for 28 of 277 JV accounting entries reviewed had not been signed by a preparer nor had they been approved. The 28 entries were valued at \$.2 billion. Additionally, 59 JV accounting entries lacked preparer signatures. For example, Military Sealift Command JV No. HQ163 (\$169.4 million) was processed without the signature of the preparer or approver.

Management Initiatives. Review of the DFAS Omaha accounting entry process disclosed that existing guidance was not followed. Further, local procedures had not been developed. Also, at the time of our audit, DFAS Denver had not implemented at its field sites, the October 1999 JV guidance issued by the DFAS Director for Accounting. In August 2000, DFAS Omaha issued a local procedure implementing the October 1999 DFAS JV guidance.

When informed that the October 1999 JV guidance was not implemented at DFAS Denver field sites, the DFAS Arlington Director for Accounting issued a memorandum on August 2, 2000, providing JV guidance that incorporated and clearly emphasized the requirement to implement the October 1999 guidance. The JV documentation and approval requirements specified in this later guidance were retroactive to October 1, 1999, for certain JVs. However, the later DFAS guidance did not provide any performance standards or an action plan with metrics for measuring progress in implementing the JV guidance. In addition, the later DFAS JV guidance inappropriately allowed JVs to be submitted for and approved 5 work days before all supporting documentation had been identified and made available to the approving official. No JV should be submitted for approval until all supporting documentation is made available to the approving official.

Summary

Because of a lack of integrated financial management systems, JV accounting entries at the DFAS field sites are necessary to input data, correct errors, post and reverse closing entries, and make prior period adjustments. However, DFAS Omaha did not always fully support or provide sufficient explanation for the JV accounting entries it made to USTRANSCOM records. Further, in some cases, DFAS Omaha personnel did not obtain approval for these accounting entries. Many of the documentation problems identified with JV accounting entries made to USTRANSCOM records can be easily corrected by simply attaching adequate support, providing more detailed explanations in the JV, or providing sufficiently detailed audit trails. The problems identified have resulted in significant amounts of accounting entries being unsupported. The conditions disclosed from reviewing 1 month of data indicate that the unsupported amounts for JV accounting entries processed by DFAS Omaha for USTRANSCOM could be far greater over the entire fiscal year. The material weaknesses disclosed in this report impact on the accuracy and reliability of the accounting records and the FY 2000 DoD Agency-Wide Financial Statements. Effective and complete implementation of the guidance discussed in this report should correct the problems noted.

Management Comments Related to the Finding and Audit Response

Summarized below are management's comments related to the finding and the audit response. For the full text of DFAS comments, see the Management Comments section of the report.

DFAS Comments. DFAS stated that we considered an accounting entry unsupported if the supporting documentation was not attached to the JV, although cross-referenced, when presented for audit. DFAS further stated that it subsequently reviewed 103 of the accounting entries identified as unsupported by the audit. Of the 103 entries reviewed, DFAS stated that 97 were fully supportable, although the supporting documentation was not filed with the JV package.

Audit Response. DFAS comments incorrectly imply that the unsupported accounting entries sufficiently cross-referenced the supporting documentation that was not included in the JV packages. Of 277 accounting entries reviewed, 186 were not cross-referenced or did not provide an adequate audit trail to supporting documentation. We commend DFAS for conducting its own followup review of 103 unsupported accounting entries. However, DFAS applied different criteria than what is specified by DoD and DFAS JV guidance in reaching their conclusion that adequate support was available for 97 of the 103 unsupported entries. The DFAS review results focused on ensuring that documentary support was available for the unsupported JVs, even if the support was not included in, or adequately cross-referenced by the JV package. Applying these criteria may reassure DFAS that the transactions were actually valid. However, the DFAS review does not alter the fact that internal controls did not ensure the accounting

entries were adequately supported when presented for approval, as required by applicable DoD guidance.

Recommendations, Management Comments, and Audit Response

We revised Recommendation 1. to reference the current journal voucher guidance issued by the Director for Accounting, Defense Finance and Accounting Service, as revised by Recommendation 2.a.

1. We recommend that the Director, Defense Finance and Accounting Service Omaha, fully implement applicable provisions of DoD Regulation 7000.14-R, the “DoD Financial Management Regulation,” volume 6A, “Reporting Policy and Procedures,” January 1998, and the memorandum issued by the Director for Accounting, Defense Finance and Accounting Service, “Journal Voucher Guidance,” August 2, 2000 (as revised by Recommendation 2.), by:

a. Providing adequate supporting documentation, including a sufficient explanation of all accounting entries made by journal voucher.

b. Obtaining appropriate approval for all accounting entries made by journal voucher.

DFAS Comments. DFAS concurred and stated that DFAS Omaha has taken corrective actions to ensure that its accounting entries are adequately supported, explained, and approved. These corrective actions include fully implementing applicable provisions of the DoD Financial Management Regulation and the August 2, 2000, JV guidance issued by DFAS Arlington.

2. We recommend that the Director, Defense Finance and Accounting Service, revise the August 2, 2000, guidance on journal vouchers to:

a. Require that approving officials be provided with all required supporting documentation at the time each journal voucher is submitted for approval,

b. Establish performance standards for all field and other site directors to set appropriate goals by which to measure the progress made in implementing DFAS Arlington journal voucher guidance, and

c. Develop and implement an action plan with detailed metrics to periodically measure the progress made by field and other site directors in achieving these performance standards.

DFAS Comments. DFAS concurred in principle, stating that adequate documentation is already required for all JVs at the time of approval. DFAS proposed an alternative to developing performance standards and an action plan for implementing the DFAS Arlington JV guidance. As an alternative to Recommendations 2.b. and 2.c., DFAS planned to develop and provide JV training to each field organization. Further, to monitor progress in improving the accounting entry process and procedures, DFAS

added JV reviews to their Internal Control Operational Reviews made during field visits. DFAS planned to complete these corrective actions by June 30, 2001.

Audit Response. The DFAS comments on Recommendation 2.a. are nonresponsive. In response to the recommendation, DFAS incorrectly stated that adequate documentation is already required at the time a JV is submitted for approval. Our report discussion of Management Initiatives notes that the JV guidance issued by DFAS Arlington on August 2, 2000, allows JVs to be approved 5 work days before all supporting documentation is identified and made available to the approving official. The guidance should be changed to require that all supporting documentation be presented at the time a JV is submitted for approval.

The DFAS comments on Recommendations 2.b. and 2.c. are partially responsive. Although sound actions, the DFAS alternatives to Recommendations 2.b. and 2.c. will not provide DFAS managers with the performance standards and an action plan by which to measure the progress made in implementing the DFAS Arlington JV guidance. As an example of responsive corrective action, DFAS could set specific performance standards to reduce the number and volume of accounting entries made to correct errors and develop an action plan to measure progress in meeting the standards. Related performance standards and metrics could also be developed for independent verification of each site's performance reports.

We ask that DFAS provide additional comments to the final report in response to Recommendations 2.a., 2.b., and 2.c.

Appendix A. Audit Process

Scope

Work Performed. We reviewed 100 percent of the USTRANSCOM JV accounting entries that DFAS Omaha processed for March 2000. USTRANSCOM accounting entries made by DFAS Omaha included 277 monthly entries valued at \$12.6 billion. In FY 2000 DFAS Omaha processed 2,466 USTRANSCOM JV accounting entries valued at \$173.6 billion. We reviewed guidance on the JV entry process. For the accounting entries reviewed, we developed categories for use in classifying each entry and identified their type and scope. Further, we reviewed each accounting entry to determine whether DFAS Omaha had adequately supported it, maintained adequate audit trails, and complied with generally accepted accounting principles and other applicable guidance.

DoD-Wide Corporate-Level Government Performance and Results Act Coverage. 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 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 the Department of Defense. This report provides coverage of the Defense Financial Management high-risk area.

Methodology

Use of Computer-Processed Data. We relied on computer-processed data from multiple reporting systems that process accounting data for USTRANSCOM. We did not evaluate the general and application controls of the systems because the process for preparing and approving JV entries at DFAS Omaha is primarily a manual process. Not evaluating the controls did not affect the results of the audit.

Audit Type, Dates, and Standards. We performed this financial-related audit from May 2000 to January 2001 in accordance with audit standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. We did not review the management control program as it related to the overall objective because the scope of the audit was modified due to time constraints.

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

Prior Coverage

The General Accounting Office and the Inspector General, DoD, have conducted multiple reviews related to financial statement issues. General Accounting Office reports can be accessed on the Internet at <http://www.gao.gov>. Inspector General DoD, reports can be accessed on the Internet at <http://www.dodig.osd.mil>.

Appendix B. General Guidance

Section 35, Title 31, United States Code. The requirements of the Federal Manager's Financial Integrity Act of 1982 for an agency's internal accounting and administrative controls were incorporated in section 3512, title 31, United States Code (31 U.S.C. 3512). That section requires DoD to establish and to implement internal accounting and administrative controls to provide reasonable assurance that ". . . revenues and expenditures applicable to agency operations and statistical reports may be prepared and accountability of the assets may be maintained." In addition, 31 U.S.C. 3512 requires DoD to assess the effectiveness of the internal accounting and administrative controls established and implemented.

Office of Management and Budget Circular No. 123. Office of Management and Budget Circular No. A-123, "Management Accountability and Control," June 21, 1995, provides guidance to Federal managers on improving the accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting, and reporting on management controls. The Circular requires Federal managers to promptly record, properly classify, and account for transactions to prepare timely and reliable accounts and reports.

General Accounting Office "Standards for Internal Control in the Federal Government." The General Accounting Office publication, "Standards for Internal Control in the Federal Government," November 1999, provides an overall framework for internal control. The standards state that control activities occur at all levels within an entity and include a wide range of diverse activities, including approvals, verifications, reconciliations, performance reviews, and maintenance of security. Further, the standards require clear documentation of all transactions and other significant events, and documentation should be readily available for examination.

Appendix C. Example of Unsupported Journal Voucher

Illustrated below, Military Sealift Command JV No. HQ 139 is 1 of 138 JV accounting entries; valued at \$10.1 billion, made in March 2000 by DFAS Omaha that was unsupported because of incomplete documentation. The rationale and basis used by DFAS Omaha officials in preparing and approving the JV is unintelligible from the support for the JV, which is shown on the next two pages of this appendix. The support does not clearly show the basis for the JV and does not provide an adequate audit trail to identify the source documentation.

MSC. STANDARD JOURNAL VOUCHER
CURRENT YEAR - FY00

ORG	JOURNAL ID	\$	T	EFFECT. DATE	JOURNAL SOURCE	D/C/G	CONTROL TOTAL
H	18140	\$	C	02/29/00	SHIRLEY	G	1,983,462.25
DESCRIPTION: TO CORRECT CASH ACCOUNTS							

G L A ACCT #	CHARGE CODE	FUNDS ADMIN	PR OG	AR RG	ST	SUB-PROG	PREUB COLLE	DESCRIPTION	D E B I T		C R E D I T	
									AMOUNT	AMOUNT	AMOUNT	AMOUNT
1160	XXXXX	XXX	C	X	X	XXXXX			1,983,462.25			
1120	XXXXX	XXX	C	X	X	XXXXX				1,983,462.25		
TOTAL									1,983,462.25		1,983,462.25	

DATE PREPARED:	3/20/00
PREPARED BY:	SHIRLEY RUSSELL
REVIEWED BY:	<i>[Signature]</i>
ENTERED BY:	<i>[Signature]</i>

2F JULY '99 Lant Navy
 1,723,786.98 8/99 IFCO's
 259,675.27 * dr 1901
 cr cash 1160 X

LOOK at HQ I9028
 Sept Suspense 9/99 dr 1310 *
 * cr 1902

dr 1310
 cr cash
 dr 1310
 cr 1310

3F
 1/00 IFC28
 X cr 1310
 * X dr 1120

1/00 HQ094
 cr 1901 1983462.25
 * dr 1310 1983462.25
 X dr 1160 1983462.25
 X cr 1120 1983462.25

correct

~~1160?~~
 * cr 1310 "C" 1983462.25
 dr 1901 "C" 1983462.25
 cr 1120 "C"
 dr 1160 "C" Have Tony post in March

Mar to post in Feb

Pull @ Aug - Jan 1310

Appendix D. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)
Director, Accounting Policy

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

Unified Command

Commander in Chief, U.S. Transportation Command

Other Defense Organizations

Director, Defense Finance and Accounting Service
Director, Defense Finance and Accounting Service Denver

Non-Defense Federal Organization

Office of Management and Budget

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Efficiency, Financial Management, and Intergovernmental Relations, Committee on Government Reform
House Subcommittee on National Security, Veterans Affairs, and International Relations, Committee on Government Reform
House Subcommittee on Technology and Procurement Policy, Committee on Government Reform



Defense Finance and Accounting Service Comments



DFAS-DAS

DEFENSE FINANCE AND ACCOUNTING SERVICE

1931 JEFFERSON DAVIS HIGHWAY

ARLINGTON, VA 22240-5291

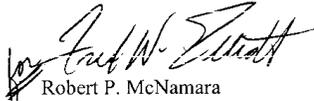
WWW.DFAS.MIL



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

SUBJECT: Audit Report on Accounting Entries Made by the Defense Finance and Accounting
Service Omaha to U.S. Transportation Command Data Reported in DoD Agency-
wide Financial Statements (Project No. D2000FD-0205)

Our response to the subject audit is attached. The point of contact is Mr. David Arvin,
(703) 607-2857 or DSN 327-2857.


Robert P. McNamara
Director for Accounting

Attachment:
As stated

cc:
DFAS-DDI
DFAS-PO/DE
DFAS-AAB/DE

DFAS Comments on Audit Report on Accounting Entries Made by the Defense Finance and Accounting Service Omaha to U.S. Transportation Command Data Reported in DoD Agency-wide Financial Statements (Project No. D2000FD-0205)

Response to Recommendations

General Comments to the Executive Summary

DFAS Denver requests that the following management comment be made as part of the Executive Summary:

DFAS did a subsequent review of journal vouchers (JVs) identified as having no documentation and determined that supporting documentation was available for \$11.6 billion of the journal vouchers identified as unsupported. However, the documentation was not always attached to the journal vouchers when presented to the auditor.

Recommendation 1. We recommend that the Director, Defense Finance and Accounting Service Omaha, fully implement applicable provisions of DoD Regulation 7000.14-R, the "DoD Financial Management Regulation," volume 6A, "Reporting Policy and Procedures," January 1998, and the memorandum issued by the Director for Accounting, Defense Finance and Accounting Service, "Journal Voucher Guidance," October 28, 1999, by:

- a. Providing adequate supporting documentation, including a sufficient explanation of all accounting entries made by journal voucher.
- b. Obtaining appropriate approval for all accounting entries made by journal voucher.

Management Comments. Concur. There was an administrative documentation problem. DFAS Omaha can and will improve the quality of its journal voucher (JV) support by ensuring explanations and descriptions clearly define the purpose and regulatory requirement, attaching as much supporting documentation as is reasonable, and identifying where additional support is maintained. We agree that the documentation on the JVs could be improved. In conducting the audit, the auditors considered the entry unsupported if the documentation for the JV was not attached, although cross-referenced, when presented to the auditors. DFAS Denver (Denver-DE) performed a subsequent review of 103 of 277 March 2000 JVs classified as having no documentation, incomplete documentation, or inadequate explanation and determined that 97 of the JVs tested were fully supportable. This review determined support was available for the JVs though not filed with the JV package. DFAS Omaha has instituted initiatives that have improved and corrected internal control weaknesses, thus ensuring proper support is explained. DFAS Omaha has fully implemented the August 2, 2000, DFAS Arlington guidance on JVs and continues to implement DoD 7000.14-R. These new controls not only ensure that appropriate and supportable documentation is attached or referenced, but also ensure that proper preparation and approval levels are obtained on all JVs.

Completion Date. March 31, 2001.

Recommendation 2. We recommend that the Director, Defense Finance and Accounting Service, revise the August 2, 2000, guidance on journal vouchers to:

a. Require that approving officials be provided with all required supporting documentation at the time each journal voucher is submitted for approval,

b. Establish performance standards for all field and other site directors to set appropriate goals by which to measure the progress made in implementing DFAS Arlington journal voucher guidance, and

c. Develop and implement an action plan with detailed metrics to periodically measure the progress made by field and other site directors in achieving these performance standards.

Management Comments. Concur in principle. We currently require all JVs to be supported with adequate documentation at the time of approval. In lieu of developing performance standards and detailed metrics related to the JV guidance, DFAS is taking other significant action to implement the intent of the audit recommendation. DFAS has directed the formulation of a journal voucher training package that will be presented to each field organization. This training will be completed within the next three months. Additionally, DFAS has added JV reviews to the Internal Control Operational Reviews conducted during field visits to monitor progress in improving the accounting entry processes and procedures at DFAS Omaha and other field organization accounting operations that report to DFAS.

Estimated Completion Date. June 30, 2001.

Audit Team Members

The Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD, prepared this report. Personnel of the Office of the Inspector, DoD, who contributed to the report are listed below.

F. Jay Lane

Salvatore D. Guli

Brian M. Flynn

W. Andy Cooley

Jeffrey A. Lee

Gerald P. Montoya

Mary K. Reynolds

Jason T. Hamilton

Margaret R. Westfall

Tara L. Drotar