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COMPILATION OF THE FY 2000 ARMY GENERAL FUND
FINANCIAL STATEMENTS AT THE DEFENSE FINANCE AND
ACCOUNTING SERVICE INDIANAPOLIS (SUSTAINING FORCES)

Report No. D-2001-158

July 13, 2001

Office of the Inspector General
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Acronyms

AAA
DFAS

Army Audit Agency
Defense Finance and Accounting Service



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

July 13, 2001

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE

SUBJECT: Audit Report on Compilation of the FY 2000 Army General Fund
Financial Statements at the Defense Finance and Accounting Service
Indianapolis (Sustaining Forces) (Report No. D-2001-158)

We are providing this report for review and comment. 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.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Defense Finance and Accounting Service comments were partially responsive. We request additional comments on Recommendations A.1.a., A.1.c., and A.2. by September 12, 2001.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Mr. Richard B. Bird at (703) 604-9102 (DSN 664-9159) (rbird@dodig.osd.mil) or Mr. Jack L. Armstrong at (317) 510-3846 (DSN 699-3846) (jarmstrong@dodig.osd.mil). See Appendix C 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-2001-158

July 13, 2001

(Project No. D2001FI-0036.001)

Compilation of the FY 2000 Army General Fund Financial Statements at the Defense Finance and Accounting Service Indianapolis (Sustaining Forces)

Executive Summary

Introduction. This is the second in a series of reports issued by the Inspector General, DoD, related to the FY 2000 Army General Fund Financial Statements. The first report was on our oversight of the Army Audit Agency audit of the FY 2000 Army General Fund Financial Statements. This report summarizes the compilation process performed by the Defense Finance and Accounting Service Indianapolis (Sustaining Forces), which 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. We delegated the audit of the FY 2000 Army General Fund Financial Statements to the Army Audit Agency. We performed the work at Defense Finance and Accounting Service Indianapolis (Sustaining Forces) to determine whether their compilation of data for the FY 2000 Army General Fund Financial Statements complied with applicable laws and regulations. The Army Audit Agency disclaimed an opinion on the FY 2000 Army General Fund Financial Statements, and we concurred with the disclaimer of opinion. The FY 2000 Army General Fund Consolidated Balance Sheet reported total assets of \$80.7 billion and total liabilities of \$54.2 billion. The Army consolidated Statement of Net Cost reported net program costs of \$87.8 billion for the period ending September 30, 2000. The combined Statement of Budgetary Resources reported total budgetary resources of \$97.0 billion. The Notes to the FY 2000 Army General Fund Financial Statements should disclose material suspense account balances. A suspense account is an account for the temporary entry of charges or credits pending determination of their ultimate disposition.

Objectives. The audit included two objectives. The first objective was to oversee the Army Audit Agency audit to verify whether we could rely on the work done by the Army Audit Agency. The first objective was addressed in the first report in the series. The second objective was to determine whether the Defense Finance and Accounting Service Indianapolis (Sustaining Forces) consistently and accurately compiled financial data from field organizations and other sources for the FY 2000 Army General Fund Financial Statements. This report addresses the second objective. We also reviewed the management control program as it related to the second objective.

Results. The Defense Finance and Accounting Service Indianapolis (Sustaining Forces) compilation of financial data from field entities and other sources into the FY 2000 Army General Fund Financial Statements was not in compliance with Federal Financial Management Improvement Act of 1996.

The Defense Finance and Accounting Service Indianapolis (Sustaining Forces) processed 459 accounting entries valued at \$464.9 billion to compile the FY 2000 Army General Fund Financial Statements. Of this amount, \$361.5 billion represented 240 unsupported and improper entries. The 240 unsupported or improper accounting entries included 143 accounting entries, valued at \$307.8 billion, that were made to correct discrepancies between accounting data. As a result, the FY 2000 Army General Fund Financial Statements continued to contain material amounts of unsupported accounting data (finding A).

The Defense Finance and Accounting Service Indianapolis (Sustaining Forces) could not determine the actual balances of the Army General Fund suspense accounts. As of September 30, 2000, the suspense account balances reported by the Department of the Treasury exceeded the suspense account balances reported by the Army General Fund accounting stations by \$233.0 million. As a result, suspense account balances were a material uncertainty affecting the amount reported for Fund Balance With Treasury for the Army General Fund (finding B).

See Appendix A for details of the management control program as it related to controls over the automated processes used to compile the FY 2000 Army General Fund Financial Statements.

Summary of Recommendations. We recommend that the Director, Defense Finance and Accounting Service Indianapolis (Sustaining Forces) enforce the Defense Finance and Accounting Service guidance on the preparation of journal vouchers to ensure that all changes to accounting data are properly documented and subject to appropriate approval, regardless of origin. We recommend establishing independent quality assurance reviews of accounting entries. We also recommend that the Director, Defense Finance and Accounting Service Indianapolis (Sustaining Forces) determine the actual balance of each suspense account and establish an approved action plan with specific target dates to meet revised requirements for reconciling suspense accounts.

Management Comments. The Director for Accounting, Defense Finance and Accounting Service concurred in principle with enforcing guidance on the preparation of journal vouchers but stated no improvements in enforcing the guidance could be made until new accounting systems can be fielded in November 2005. The Director nonconcurred with establishing independent quality assurance of accounting entries and stated the accounting systems lack the level of detail needed to support summary accounting adjustments and additional levels of review will not improve matters. The Director agreed to establish an approved action plan with specific target dates to meet revised requirements for reconciling suspense accounts. See the Finding section for a discussion of management comments and the Management Comments section for the complete text.

Audit Response. The Defense Finance and Accounting Service comments were partially responsive. We request that the Defense Finance and Accounting Service provide additional comments on enforcement of existing guidance on journal vouchers and quality assurance reviews. We request that comments on the final report be provided by September 12, 2001.

Table of Contents

Executive Summary	i
Introduction	
Background	1
Objectives	2
Findings	
A. Accounting Entries	3
B. Suspense Accounts	11
Appendixes	
A. Audit Process	
Scope	15
Methodology	16
Management Control Program Review	16
B. Prior Coverage	18
C. Report Distribution	19
Management Comments	
Defense Finance and Accounting Service	21

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 2000 Army General Fund Financial Statements. This report summarizes the compilation process performed by the Defense Finance and Accounting Service (DFAS) Indianapolis.

Chief Financial Officers Act. This 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. The Chief Financial Officers Act requires the annual preparation and audit of financial statements. Agency Inspectors General, or appointed external auditors, are required to audit the financial statements in accordance with generally accepted Government auditing standards and other guidance provided by the Office of Management and Budget.

Federal Financial Management Improvement Act of 1996. The Federal Financial Management Improvement Act of 1996, Public Law 104-208, September 30, 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. Federal financial management system requirements call for audit trails that identify document input, change, approval, and deletions by originator, as well as document progress and ensure that all transactions are handled consistently to ensure the validity of audit trails and transactions, regardless of their point of origin.

Role of the Defense Finance and Accounting Service Indianapolis (Sustaining Forces). DFAS Indianapolis (Sustaining Forces) 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.

Compilation Process. The compilation process is complicated because financial data submitted to DFAS Indianapolis (Sustaining Forces) are not generated by integrated, transaction-driven, general ledger accounting systems. For 9 years, DFAS Indianapolis (Sustaining Forces) used a complex interim process to combine financial information from many accounting and budgetary subsystems to compile the Army General Fund financial statements. At the end of the fiscal year, field accounting entities supported by DFAS Indianapolis (Sustaining Forces) directly submitted a general ledger trial balance 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 to change 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 (Sustaining Forces) used a variety of microcomputer programs and applications to convert the databases into the FY 2000 Army General Fund Financial Statements. The Army Audited Financial Statements Branch, Audited Financial Statements Division of DFAS Indianapolis (Sustaining Forces) Corporate Operations Directorate is responsible for compiling the Army General Fund financial statements.

FY 2000 Army General Fund Financial Statements. The FY 2000 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 2000 Army General Fund Consolidated Balance Sheet reported total assets of \$80.7 billion and total liabilities of \$54.2 billion as of September 30, 2000. The FY 2000 Army Consolidated Statement of Net Cost reported net program costs of about \$87.8 billion for the fiscal year ending September 30, 2000. The combined Statement of Budgetary Resources reported total budgetary resources of about \$97.0 billion. The Notes to the FY 2000 Army General Fund Financial Statements should disclose material suspense account balances. A suspense account is an account for the temporary entry of charges or credits pending determination of their ultimate disposition.

Audit of the FY 2000 Army General Fund Financial Statements. We delegated the FY 2000 audit of the Army General Fund financial statements to AAA. We assisted AAA by performing audit work at DFAS Indianapolis (Sustaining Forces), including examining the processes used to prepare the FY 2000 Army General Fund Financial Statements. The AAA disclaimed an opinion on the FY 2000 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 included two objectives. The first objective was to oversee the AAA audit to verify whether we could rely on the work done by the AAA. This objective is addressed in the first report. The second audit objective was to determine whether DFAS Indianapolis (Sustaining Forces) consistently and accurately compiled financial data from field organizations and other sources for the FY 2000 Army General Fund Financial Statements. We also reviewed the management control program as it related to the second objective. This report addresses the second objective. Appendix A discusses the scope, methodology, and management control program review as it related to the second objective, and Appendix B contains the prior audit coverage.

A. Accounting Entries

DFAS Indianapolis (Sustaining Forces) processed 459 accounting entries valued at \$464.9 billion when compiling the FY 2000 Army General Fund Financial Statements. However, 240 (52.3 percent) of the accounting entries, valued at about \$361.5 billion, were unsupported or improper because DFAS Indianapolis (Sustaining Forces) did not fully implement or enforce DFAS guidance on the preparation of accounting entries. As a result, the FY 2000 Army General Fund Financial Statements contained material amounts of unsupported accounting data.

Preparing Accounting Entries

Table 1 summarizes the values of accounting entries that DFAS Indianapolis (Sustaining Forces) made to the general ledger for FYs 1999 and 2000.

Table 1. FYs 1999 and 2000 Army General Fund Departmental Accounting Entries (dollars in billions)				
Purpose of Accounting Entries	FY 1999		FY 2000	
	No.	Amount	No.	Amount
Forcing general ledger accounting data to match certified budgetary status-of-appropriations data	2	\$130.5	5	\$237.0
Buyer-seller adjustments	93	60.9	71	45.3
Other adjustments to correct discrepancies between data sources	46	18.0	67	25.5
Subtotal: Unsupported Accounting Entries to Correct Discrepancies	141	\$209.4	143	\$307.8
Other unsupported or improper accounting entries	51	80.8	97	53.7
Total: Unsupported Accounting entries	192	\$290.2	240	\$361.5
All Others - Supported	176	175.4	219	103.4
Vouchers not reviewed	12	4.1	0	0.0
Total Accounting Entries	380	\$469.7	459	\$464.9

Accounting Entries to Correct Discrepancies. While compiling the FY 2000 Army General Fund Financial Statements, DFAS Indianapolis (Sustaining Forces) prepared 143 accounting entries valued at \$307.8 billion to correct discrepancies between sources of accounting data. DFAS issued guidance, Defense Finance and Accounting Service Memorandum, "Journal Voucher Guidance," August 2, 2000, stating the following:

When the duly authorized official has determined during a reconciliation of data between two or more sources that a discrepancy exists, a correcting journal voucher may be necessary. Journal voucher entries included in this category often are made to match trial balances or other source data reported by operating locations and/or accounting stations to the DoD Components' budget execution

reports. In general, trial balances or other source data should be considered to be correct and only should be adjusted to budget execution data, or other data, in instances where budget execution data are determined to be more accurate. This policy is consistent with the DoD Financial Management Regulation (DoD Financial Management Regulation). Evidence to support this type of journal voucher includes source data and the related analysis used to determine which is the correct amount. If a journal voucher is necessary, the voucher must document why a discrepancy exists in the data; the reason the budget execution data or other data are considered to be more accurate, and the evidence to support this reason; and how the authoritative source determined the entries on the journal voucher are correct.

DFAS Indianapolis (Sustaining Forces) did not implement the preceding guidance.

General Ledger Accounting Data. DFAS Indianapolis (Sustaining Forces) personnel prepared five accounting entries valued at \$237.0 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 2000 Army General Fund Financial Statements did not conform to the general ledger method of accounting, and DFAS Indianapolis (Sustaining Forces) personnel believed budgetary accounting data to be more accurate. However, the accounting entries did not include evidence supporting that assertion. The five accounting entries valued at \$237.0 billion were unsupported. For example, journal voucher 1204000ZZZ, valued at \$236.5 billion, was unsupported because DFAS Indianapolis (Sustaining Forces) personnel made the accounting entries to force general ledger accounting data to agree with budgetary accounting data without attempting to analyze the differences between the two data sources or to determine which data source was correct. DFAS personnel stated that they could not comply with DFAS guidance because they did not have the resources necessary to complete the required analysis at Indianapolis or the time to obtain the requisite data from field accounting entities.

Intragovernmental Transactions. DFAS Indianapolis (Sustaining Forces) personnel prepared 71 accounting entries valued at \$45.3 billion to force intragovernmental transactions between trading partners to agree. DFAS personnel forced buyers' transaction data that DFAS Indianapolis (Sustaining Forces) recorded to agree with sellers' transaction data recorded by the other DFAS entities. For example, journal voucher AT21AC-17 valued at \$11.4 billion was prepared to reclassify an amount in general ledger account 7190, Other Gains, as nongovernmental transactions instead of governmental transactions so that trading partner eliminations did not result in abnormal balances. These 71 adjustments were not supported because DFAS Indianapolis (Sustaining Forces) personnel did not reconcile the differences between the two data sources to determine which was correct. 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 Department of the Treasury issued for Federal agencies' Centralized Trial Balance Systems submission.

Sources of Accounting Data. DFAS Indianapolis (Sustaining Forces) personnel prepared 67 accounting entries valued at \$25.5 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 or to force the financial statements to be internally consistent. For example, journal voucher AT21AC-73 valued at \$7.4 billion was made to force the statement of net cost and the statement of financing to agree. DFAS Indianapolis (Sustaining Forces) personnel did not reconcile the differences between the two data sources to determine which was correct.

DFAS Indianapolis (Sustaining Forces) relied on its Headquarters Accounting and Reporting System to prepare the FY 2000 Army General Fund Financial Statements. Until DFAS implements an integrated, transaction-driven accounting system Army-wide, DFAS Indianapolis (Sustaining Forces) must use accounting data from often conflicting sources to prepare the Army General Fund financial statements. If DFAS does not analyze the differences among the conflicting sources of accounting data to identify the correct source, and document the analysis, DFAS has no assurance that it is using the most accurate accounting data for financial reporting. DFAS Indianapolis (Sustaining Forces) should fully implement DFAS journal voucher guidance on the preparation of adjustments to correct discrepancies between sources of accounting data.

Other General Ledger Accounting Entries. While preparing the FY 2000 Army General Fund Financial Statements, DFAS Indianapolis (Sustaining Forces) personnel prepared 316 accounting entries valued at \$157.1 billion for reasons other than to correct discrepancies between sources of accounting data. Of the 316 accounting entries, 97 entries valued at \$53.7 billion were not supported by the documentation that DFAS guidance on journal vouchers required. Table 2 summarizes the 316 accounting entries by purpose and support.

Table 2. Other FY 2000 Army General Fund Accounting Entries (Dollars in billions)				
Purpose	Unsupported		Total	
	No.	Amount	No.	Amount
Corrections of errors	50	\$28.0	157	\$43.5
Record data provided by other than accounting sources	13	3.9	81	60.4
Record year-end accruals or other departmental data	34	21.8	78	53.2
Total	97	\$53.7	316	\$157.1

During the preparation of the FY 2000 Army General Fund Financial Statements, DFAS Indianapolis (Sustaining Forces) took effective action to reduce unsupported accounting entries. For FY 2000, DFAS Indianapolis (Sustaining Forces) prepared a handbook on the preparation of accounting adjustments that explained the logic behind 35 types of common, recurring accounting entries and how they were to be documented. As a result, the value

of inadequately documented accounting entries declined from \$80.8 billion in FY 1999 to \$53.7 billion in FY 2000.

One unsupported accounting entry valued at \$16.7 billion was made to correct a systemic error in the preparation of DFAS Indianapolis (Sustaining Forces) accounting data for use by the Defense Departmental Reporting System. The Defense Departmental Reporting System requires that accounting data submitted for use in the preparation of financial statements be converted to a standard format and placed in an Excel spreadsheet. However, DFAS Indianapolis (Sustaining Forces) software used to accomplish this task included some erroneous translations from the DoD general ledger to the U.S. standard general ledger. DFAS Indianapolis (Sustaining Forces) personnel corrected the errors by changing the spreadsheet directly, instead of submitting correcting accounting entries through the approved, controlled Defense Departmental Reporting System process. This direct change was not adequately documented nor subject to the normal approval process. DFAS guidance on the preparation of accounting entries should be expanded to ensure that all changes to accounting data are properly documented and subject to appropriate approval, regardless of origin.

Quality Assurance Review. In Inspector General, DoD, Report No. D-2000-160, "Compilation of the FY 1999 Army General Fund Financial Statements at the Defense Finance and Accounting Service Indianapolis Center," July 12, 2000, we recommended that DFAS Indianapolis (Sustaining Forces) establish independent quality assurance reviews of accounting entries. DFAS partially concurred, suggesting the revision of existing guidance to require managers reviewing accounting entries to specifically approve supporting documentation as part of the review process. DFAS further stated that an additional independent quality assurance review would not improve managerial controls over the preparation of accounting entries. DFAS personnel corrected 63 accounting entries (\$31.8 billion) to FY 2000 data that auditors had identified as inadequately documented. Although the requirement for a quality assurance review was not established, the correction of the 63 accounting entries after being identified by auditors indicates that additional improvement is needed. An independent quality assurance review of accounting entries should be established to minimize or eliminate the occurrence of inadequately documented accounting entries.

Quality assurance reviews would also identify accounting entries that had not been properly approved by management. DFAS journal voucher guidance issued October 28, 1999, was revised to state that approval of accounting entries also constitutes acceptance of the supporting documentation by the approving official. The journal voucher guidance also established the position of the approving official responsible for accounting entries of specific values. For example, accounting entries valued at more than \$1.0 billion should be approved by the Director, DFAS Indianapolis (Sustaining Forces). However, at the time the final version of the financial statements was completed, 211 of the 459 accounting entries prepared for FY 2000 valued at \$447.8 billion were not approved by the appropriate official in accordance with DFAS guidance. The 211 improperly approved accounting entries constituted 96.3 percent (\$447.8 billion) of the \$464.9 billion in accounting entries made by DFAS

Indianapolis (Sustaining Forces). Of the \$361.5 billion of total unsupported and improper accounting entries, \$359.6 billion (or 99.5 percent) were not reviewed by the appropriate official. The revision of DFAS journal voucher guidance was not implemented, further supporting the need for an independent quality assurance review.

Effects of General Ledger Adjustments. Unsupported accounting entries had a material impact on the FY 2000 Army General Fund Financial Statements. Table 3 shows the effects of departmental accounting entries for two selected financial statement lines.

Table 3. Effects of Departmental Accounting Entries on the FY 2000 Army General Fund Financial Statements for Selected Financial Statement Lines				
(in millions)				
Selected Financial Statement Line	Unadjusted Balance	Unsupported Accounting Entries	Other Accounting Entries	Adjusted Balance
Fund Balance With Treasury	\$37,587	\$(2,310)	\$(770)	\$34,507
Unexpended Appropriations	\$245,394	\$(218,850)	\$(657)	\$25,887

Because of the material impact of unsupported accounting entries, the FY 2000 Army General Fund Financial Statements were materially influenced by unsupported accounting data. As a result, the FY 2000 Army General Fund Financial Statements were not auditable.

Conclusion

DFAS Indianapolis (Sustaining Forces) has used budgetary status-of-appropriations data and expenditure data to compile financial data for the Army General Fund financial statements contrary to the requirements of the Federal Financial Management Improvement Act of 1996. Appendix B lists the audit reports issued during the last 9 years that have addressed the use of status-of-appropriations and expenditure data. The number and scope of unsupported accounting entries have not materially declined. Until an integrated, transaction-driven accounting system is implemented Army-wide, DFAS Indianapolis (Sustaining Forces) must continue to rely on accounting entries to prepare the Army General Fund financial statements. DFAS Indianapolis (Sustaining Forces) should implement and enforce DFAS journal voucher guidance and establish quality assurance reviews for the preparation of accounting entries. Specifically, the Director, Defense Finance and Accounting Service Indianapolis (Sustaining Forces) should require personnel to document and support all accounting entries made to financial data regardless of origin. In addition, personnel should perform analysis, to determine which data source is correct when discrepancies exist during a reconciliation of data between two or

more sources; and to obtain approval of journal vouchers from the proper official prior to making the accounting entry.

In Inspector General, DoD, Report No. D-2000-160, we recommended that DFAS Indianapolis (Sustaining Forces) establish independent quality assurance reviews of accounting entries. DFAS Indianapolis (Sustaining Forces) partially concurred, suggesting the revision of existing guidance to require managers reviewing accounting entries to specifically approve supporting documentation as part of the review process. However, the DFAS approval process was ineffective. We found that \$359.6 billion (99.5 percent) of the \$361.5 billion in unsupported accounting entries made to the FY 2000 Army General Fund financial data were not properly reviewed and approved. As a result, an independent quality assurance review of accounting entries needs to be established that will ensure that existing guidance is followed. Unless the accounting entries are properly documented and recorded in the supporting financial records, the Army General Fund financial statements will be unreliable and not auditable.

Recommendations, Management Comments, and Audit Response

A. We recommend that the Director, Defense Finance and Accounting Service Indianapolis (Sustaining Forces):

1. Comply with the Defense Finance and Accounting Service compilation guidance on the preparation of journal vouchers, specifically:

a. Document and support all accounting entries made to financial data regardless of origin.

Management Comments. DFAS concurred in principle and stated that certified budget execution data is superior to general ledger data. DFAS further stated that the accounting systems currently in use are not capable of providing the detail necessary to support this position but a new accounting system, the Defense Joint Accounting System, will be deployed by November 2005.

Audit Response. DFAS comments were not responsive. The adjustments based on the DFAS belief in the superiority of certified budget execution data is the subject of Recommendation A.1.b. This recommendation refers to the 97 adjustments for \$53.7 billion unrelated to differences between data sources for which DFAS Indianapolis (Sustaining Forces) provided either no support or inadequate support. One of these adjustments for about \$16.7 billion was completely undocumented. We request additional comments on how DFAS Indianapolis (Sustaining Forces) will support the accounting entries referred to above.

b. Perform analysis, and include as support, to determine which data source is correct when discrepancies exist during a reconciliation of data between two or more sources.

Management Comments. DFAS concurred in principle and stated that it is currently conducting analyses to determine whether there is any basis for its faith in the superiority of certified budget execution data. However, DFAS further stated that its current accounting systems do not provide the detailed data necessary to reconcile and support elimination adjustments. This deficiency will be corrected by November 30, 2005.

c. Obtain approval of journal vouchers from the proper official prior to making the accounting entry.

Management Comments. DFAS concurred in principle but stated current systems limitations created time limitations that did not permit obtaining all required approvals prior to input of accounting entries. DFAS further stated that the required approvals were eventually obtained, and that research will be conducted to determine whether guidance on the delegation of approval authority needs to be tightened. DFAS is also working with the Under Secretary of Defense (Comptroller) to incorporate current guidance on the preparation of accounting entries into the DoD Financial Management Regulation.

Audit Response. DFAS comments were not fully responsive. The accounting entries were approved, not only after input, but after the financial statements were issued. The process of approving accounting entries after the statements have been issued encourages the erroneous approval of unsupported accounting entries. If these accounting entries had been found to be incorrect when finally reviewed and approved, there would have been no recourse but to withdraw the financial statements they supported. We do not believe DFAS would withdraw financial statements already issued. DFAS should require the timely approval of accounting entries. We request that DFAS provide additional comments on how it can better ensure proper approval of journal vouchers.

2. Establish independent quality assurance reviews of accounting entries to ensure that existing guidance is followed.

Management Comments. DFAS nonconcurred, stating that unsupported accounting adjustments are caused by accounting system deficiencies. DFAS further stated that there can be no improvement in support for accounting adjustments until better accounting systems are fielded.

Audit Response. DFAS comments were not responsive. There were 97 unsupported accounting entries for \$53.7 billion that were unaffected by accounting system deficiencies. Of the 97 accounting entries, 66 entries for \$31.8 billion were corrected after auditors pointed out the deficiencies in support. These 66 accounting entries should have been corrected by the quality assurance review. In addition, since DFAS will not ensure review of the

accounting entries by the proper official, quality assurance is even more important. As a result, we request additional comments and that DFAS Indianapolis (Sustaining Forces) reconsider its position and establish a quality assurance review.

B. Suspense Accounts

DFAS Indianapolis (Sustaining Forces) could not determine the actual balances of the Army General Fund suspense accounts. As of September 30, 2000, the suspense account balances reported by the Department of the Treasury exceeded the suspense account balances reported by the Army General Fund accounting stations by \$233.0 million. This lack of ability to determine the balances occurred because DFAS Indianapolis (Sustaining Forces) did not have effective procedures for monitoring and resolving accounting transactions placed in suspense accounts. Although DFAS Indianapolis (Sustaining Forces) recognized in FY 1997 that material management control weaknesses existed with the reconciliation of suspense account balances, no effective program to monitor and correct differences was established. As a result, suspense account balances were a material uncertainty affecting the amount reported for Fund Balance With Treasury for the Army General Fund, and there was no assurance that existing suspense account differences would be corrected or that future differences would be resolved.

Suspense Account Reports

Suspense Account Management. A suspense account is an account for the temporary entry of charges or credits pending determination of their ultimate disposition. Previous guidance required accounting activities to take actions to clear balances in the suspense accounts in a timely manner. Items that remained in the suspense accounts in which no action had been initiated for 6 months or longer should have been reviewed for a potential loss of funds investigation. In January 2001, the DoD published revised guidance on suspense accounts in DoD Regulation 7000.14-R, the DoD Financial Management Regulation, volume 3, chapter 11, “Budget Execution – Availability and Use of Budgetary Resources.” The regulation requires that all transactions posted to suspense accounts 21F3875 and 21F3885 be either resolved or charged back to the originating activity within 60 days.

Financial Reporting. Volume 6B, chapter 10 of the DoD Financial Management Regulation, “Form and Content of the Department of Defense Audited Financial Statements,” December 2000, requires that material suspense accounts be separately disclosed in Footnote 3 of the financial statements of DoD entities.

Suspense Account Reports. We examined two reports of the suspense accounts balances. Each was based on data from a different source, and each had a different balance at the end of FY 2000.

The Treasury Trial Balance. The Treasury Trial Balance reflects the month-end balance recorded in U.S. Treasury records. These

balances are based on the cumulative net disbursements reported to the Department of the Treasury by disbursing stations. The FY 2000 ending balance was \$463.7 million.

Suspense Account Report. The Suspense Account Report is a monthly report of suspense account balances sent from the accounting stations to DFAS Indianapolis (Sustaining Forces). This report, based on records maintained by the accounting stations, is not certified and is the only report that shows the ages of suspense account balances. The FY 2000 ending balance was \$246.7 million.

Resolving Suspense Account Differences

DFAS Indianapolis (Sustaining Forces) did not have effective procedures for monitoring and resolving accounting transactions placed into suspense accounts. As of September 30, 2000, the suspense account balances reported by the Department of the Treasury exceeded the suspense account balances reported by the Army General Fund accounting stations by \$233.0 million.

Table 4. Pre-Closing Fiscal Year 2000 Ending Balances
(millions)

Suspense Account	Treasury Trial Balance	Suspense Account Report	Difference (Absolute Value)
21F3875	\$435.3*	\$330.7	\$104.6
21F3878	N/A	.0	.0
21F3880	(11.9)*	(13.3)	1.4
21F3885	48.4*	(54.8)	103.2
21F3886	(4.6)*	.0	4.6
21X6276	(10.7)	(10.9)	0.2
21X6500	(3.9)	(0.5)	3.4
21X6501	(0.5)	(4.5)	4.0
21X6875	11.6*	.0	11.6
Totals	\$463.7	\$246.7	\$233.0

*. Includes Amount from September 2000 Closing Voucher.

Differing suspense account balances call into question the validity and monitoring of suspense account transaction data. For example, Department of the Treasury Bulletin 2000-02, December 13, 1999, required that the use of suspense account 21X6875 be discontinued and that the balances in the suspense account be eliminated by June 30, 2000. As shown above, the balances in the suspense account were not eliminated and required an \$11.6 million entry to close the suspense account at year's end with the Department of the Treasury.

We discussed the varying suspense account balances with DFAS Indianapolis (Sustaining Forces) personnel, and they told us they were aware that problems existed. They told us that research was needed in order to reconcile the differences between the Treasury Trial Balance and the Suspense Account Report.

Footnote Disclosure of Suspense Account Balances

Suspense account information was not properly disclosed in Footnote 3, Fund Balance With Treasury, to the FY 2000 Army General Fund Financial Statements.

- The footnote did not disclose material suspense account balances. The DoD Financial Management Regulation requires that any material balances in deposit, receipt, suspense, clearing, and related nonspending accounts be listed separately in the footnote. A suspense account is considered material if it comprises more than 10 percent of the Other Fund Types line item balance displayed in Footnote 3. For FY 2000, the Army General Fund Other Fund Types balance was about \$134.6 million. As Table 4 shows, the amounts for suspense accounts 21F3880, 21X6276, and 21X6500 were material and should have been disclosed.
- The footnote did not disclose the closing amount for suspense account 21X6875, and the closing amount disclosed for suspense account 21F3885 was incorrect.
- The footnote also did not disclose a change in Online Payments and Collections accounting policy. Department of the Treasury Bulletin 2000-02 required that Online Payments and Collections transactions that remain unclassified at month's end be recorded as a summary total in suspense account 21F3885.007.
- The footnote did not disclose that the reconciliation of suspense account balances had been reported by DFAS Indianapolis (Sustaining Forces) as a material internal control weakness.

Suspense account information should be properly and accurately disclosed in Footnote 3, Fund Balance With Treasury, in accordance with the DoD Financial Management Regulation.

Material Management Control Weakness

The September 30, 2000, Suspense Account Report showed that \$236.8 million of the total \$246.7 million in suspense (96 percent) was more than 1 year old. Generally, the older transactions get, the harder they are to successfully research and resolve. The reconciliation of suspense account balances was reported by DFAS in FY 1997 as an uncorrected material management control weakness. The FY 2000 DFAS Annual Assurance Statement on Internal Controls extended the target date for correction from FY 1999 to FY 2002. DFAS stated that one of the reasons for the extension is that the complexity of audit reconciliation and age of balance differences impacted the agency's progress in clearing the accounts. For this reason, it is critical that those differences not due to timing be identified, researched, and resolved as soon as

possible. DFAS Indianapolis (Sustaining Forces) should establish an approved action plan with specific target dates for reconciling transactions more than 60 days old in suspense accounts.

Conclusion

Suspense account balance differences are an uncertainty affecting the amount reported for Fund Balance With Treasury and represent a material internal control weakness that must be resolved. It is critical that the uncertainties not due to timing be resolved as soon as possible. DFAS Indianapolis (Sustaining Forces) should establish an approved action plan with specific target dates for reconciling transactions more than 60 days old in suspense accounts. In addition, suspense account information should be properly and accurately disclosed in the footnotes to the Army general fund financial statements.

Recommendation and Management Comments

B. We recommend that the Director, Defense Finance and Accounting Service Indianapolis (Sustaining Forces) determine the actual balance of each suspense account and establish an approved action plan with specific target dates to meet revised requirements for reconciling suspense accounts 21F3875 and 21F3885.

Management Comments. DFAS concurred, stating that a plan of action for suspense accounts, including milestones and actions for clearing suspense accounts, would be completed by March 24, 2002.

Appendix A. Audit Process

Scope

Audit Work Performed. Our review of the compilation of the FY 2000 Army General Fund Financial Statements covered processes, procedures, and related management controls that DFAS Indianapolis (Sustaining Forces) 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 January 25, 2001. Our examination included a review of the following processes:

- 459 adjusting journal vouchers valued at \$464.9 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 submitted by DoD field accounting entities or other sources or attempt to reconcile data with subsidiary records. Examination of the data was the responsibility of AAA. We compared the Fund Balance With Treasury recorded by the Department of the Treasury for the Army General Fund to 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.

DoD-Wide Corporate-Level Government Performance and Results Act Coverage. In response to the Government Performance and Results Act, the Secretary of Defense established 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 measure:

- **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-02)**
- **FY 2001 Subordinate Performance Goal 2.5:** Improve DoD financial and information management. **(01-DoD-2.5)**
- **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 DoD. This report provides coverage of the Defense Financial Management high-risk area.

Methodology

Use of Computer-Processed Data. To achieve the audit objective, we relied primarily on computer-processed data in DFAS data bases ZPBI, SOURCE21, JVDATA, OUTPUT, and Defense Departmental Reporting System. We tested the data and determined that they were complete but not subject to adequate controls. 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 (Sustaining Forces).

Audit Type, Period, and Standards. We performed this financial-related audit at DFAS Indianapolis (Sustaining Forces) from August 2000 through March 2001. We did our work in accordance with generally accepted Government auditing standards except that we were unable to obtain an opinion on our system of quality control. The most recent external quality control review was withdrawn on March 15, 2001 and we will undergo a new review. 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 Review

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, and DoD Directive 5010.40, "Management Control (MC) Program Procedures," August 28, 1996, require 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 DFAS Indianapolis (Sustaining Forces) processes and procedures for consolidating financial data from field organizations and other sources for preparation of the FY 2000 Army General Fund Financial Statements.

Adequacy of Management Controls. A material management control weakness, as defined by DoD Directive 5010.40 existed in DFAS Indianapolis (Sustaining Forces) procedures for compiling the FY 2000 Army General Fund Financial Statements. Management controls at DFAS Indianapolis (Sustaining Forces) were not adequate to ensure that accounting entries were properly documented and recorded in Army accounting records. Recommendations A.1. and A.2., if implemented, will improve controls over accounting entries. Although DFAS Indianapolis (Sustaining Forces) recognized in FY 1997 that material management control weaknesses existed with the reconciliation of suspense account balances, no effective program to monitor and correct differences was established. Recommendation B., if implemented, will improve controls over suspense accounts. A copy of the report will be provided to the senior official responsible for management controls at DFAS Indianapolis (Sustaining Forces).

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

Appendix B. Prior Coverage

GAO

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. D-2000-160, “Compilation of the FY 1999
Army General Fund Financial Statements at the Defense Finance and
Accounting Service Indianapolis Center,” July 12, 2000

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

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)

Department of the Army

Assistant Secretary of the Army (Financial Management and Comptroller)
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 Indianapolis (Sustaining Forces)

Non-Defense Federal Organizations and Individuals

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

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JUN - 7 2001

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

SUBJECT: Audit Report on Compilation of the FY 2000 Army General Fund Financial
Statements at the Defense Finance and Accounting Service Indianapolis (Sustaining
Forces) (Project No. D2001-D000FI-0036.001)

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


Robert F. McNamara
Director for Accounting

Attachment:
As stated

cc:
DFAS-DDI
DFAS-IN (Sustaining Forces)

**DFAS Comments on Audit Report on Compilation of the FY 2000 Army General Fund
Financial Statements at the Defense Finance and Accounting Service Indianapolis
(Sustaining Forces) (Project No. D2001-D000FI-0036.001)**

Responses to Recommendations.

Recommendation A. We recommend that the Director, Defense Finance and Accounting Service Indianapolis (Sustaining Forces):

1. Comply with the Defense Finance and Accounting Service compilation guidance on the preparation of journal vouchers, specifically:

a. Document and support all accounting entries made to financial data regardless of origin.

Management Comments. Concur in principle. The Defense Finance and Accounting Service Indianapolis (DFAS-IN) Sustaining Forces documents and supports all accounting entries to the extent that detailed support is available. DFAS-IN considers the certified budget execution data to be superior to general ledger data since implementation of Chief Financial Officer (CFO) Reporting in 1991. As a result, general ledger accounts have been adjusted, in those cases where relationships exist between budgetary and proprietary accounts, to agree with the budgetary data. The bulk of "unsupported adjustments" result when general ledger accounts are adjusted using certified budgetary data as the baseline for general ledger adjustments. Adjustments of this nature are made at a very summarized level. Unfortunately, field level and departmental level accounting systems are not capable of passing and receiving the level of detailed information necessary to itemize the individual transactions. Based on the deployment of new systems, the estimated date for network-wide deployment of Defense Joint Accounting System is November 2005.

Estimated Completion Date: November 30, 2005.

b. Perform analysis, and include as support, to determine which data source is correct when discrepancies exist during a reconciliation of data between two or more sources.

Management Comments. Concur in principle. However, DFAS-IN does not maintain the detail level of transactions necessary to attach to the adjusting voucher. Consequently, reconciliation of variances between two separate, highly summarized sources of data that should reflect comparable numbers would simply be too cost prohibitive and impractical given the reporting timeline requirements. DFAS-IN considers the certified budget execution data to be superior, and is currently conducting analyses to determine if this assumption is correct. Auditors also consider the adjustments made to eliminate intragovernmental activity among trading partners to be "unsupported" for many of the same reasons. Department of Defense (DoD) accounting systems were not designed to provide the level of detail necessary to effectively reconcile all intragovernmental transactions between trading partners. Consequently, DFAS-IN cannot comply

with the recommendation to reconcile and support elimination adjustments until DoD accounting systems have been modified to provide the requisite level of detail.

Estimated Completion Date: November 30, 2005.

c. Obtain approval of journal vouchers from the proper official prior to making the accounting entry.

Management Comments. Concur in principle. It is important for all of our journal vouchers to be properly approved. In FY 2000, current systems limitations created time restrictions that did not allow DFAS-IN to consistently obtain all signatures required by existing guidance prior to the input of adjusting journal vouchers. The appropriate level of DFAS-IN management eventually approved all adjusting journal vouchers. We will research the need to clarify the guidance to more tightly control the delegation of approval authority. DFAS is currently working with the Office of the Under Secretary of Defense (Comptroller) to incorporate the current journal voucher guidance into the Department of Defense Financial Management Regulation (DoD 7000.14-R).

Estimated Completion Date: September 30, 2001.

2. Establish independent quality assurance reviews of accounting entries to ensure that existing guidance is followed.

Management Comments. Nonconcur. This was a previous audit recommendation to which we responded in similar fashion. As stated in recommendation A-1, the journal vouchers are considered unsupported, not because of a lack of attention to detail by the DFAS-IN accountants, but because of a lack of accounting detail necessary to support the summary level adjustments made at the Departmental level. Additional levels of review will not change the ability of the accountants to provide additional support.

Recommendation B. We recommend that the Director, Defense Finance and Accounting Service Indianapolis (Sustaining Forces) determine the actual balance of each suspense account and establish an approved action plan with specific target dates to meet revised requirements for reconciling suspense accounts 21F3875 and 21F3885.

Management Comments. Concur. We will develop a plan of action for suspense accounts. The plan will include milestones and actions for clearing suspense accounts.

Estimated Completion Date: March 24, 2002.

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 General, DoD, who contributed to the report are listed below.

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