

A *udit*



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ACCOUNTING ENTRIES MADE IN COMPILING THE FY 2000
FINANCIAL STATEMENTS FOR THE WORKING CAPITAL FUNDS
OF THE AIR FORCE AND OTHER DEFENSE ORGANIZATIONS

Report No. D-2001-163

July 26, 2001

Office of the Inspector General
Department of Defense

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Acronyms

CFO	Chief Financial Officer
DFAS	Defense Finance and Accounting Service
DSS	Defense Security Service
DDRS	Defense Departmental Reporting System
GAAP	Generally Accepted Accounting Principles
JLSC	Joint Logistics Systems Center
ODO	Other Defense Organizations
SF	Standard Form
USTRANSCOM	United States Transportation Command
WCF	Working Capital Fund



INSPECTOR GENERAL
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July 26, 2001

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE

SUBJECT: Audit Report on Accounting Entries Made in Compiling the FY 2000
Financial Statements for the Working Capital Funds of the Air Force and
Other Defense Organizations (Report No. D-2001-163)

We are providing this report for review and comment. We conducted the 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.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Under Secretary of Defense (Comptroller) did not comment on a draft of this report. Comments from the Defense Finance and Accounting Service were fully responsive, except for those provided on Recommendation 2.b., which were incomplete. Therefore, we clarified the recommendation and we request comments from the Under Secretary of Defense (Comptroller) and additional comments on Recommendation 2.b. from the Defense Finance and Accounting Service by August 27, 2001.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Mr. Brian M. 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 C for the report distribution. The audit team members are listed inside the back cover.

A handwritten signature in black ink, appearing to read "Thomas F. Gimble", is positioned above the printed name.

Thomas F. Gimble
Acting
Deputy Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. D-2001-163

July 26, 2001

(Project No. D2001FD-0014.002)

Accounting Entries Made in Compiling the FY 2000 Financial Statements for the Working Capital Funds of the Air Force and Other Defense Organizations

Executive Summary

Introduction. The Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994, requires DoD to submit to the Office of Management and Budget annual audited financial statements. This audit is one in a series of audits of department-level accounting entries made by the Defense Finance and Accounting Service in preparing the FY 2000 financial statements for DoD reporting entities. This audit supported the audits of the FY 2000 financial statements for the DoD and the Department of the Air Force Working Capital Fund. The Inspector General, DoD, and the Air Force Audit Agency disclaimed an opinion on those financial statements. The Defense Finance and Accounting Service Denver made \$127.7 billion in accounting entries in compiling the FY 2000 financial statements for the working capital funds of the Air Force and three other Defense organizations included in the DoD Agency-Wide financial statements.

Objective. The original objective of the audit was to determine whether the Defense Finance and Accounting Service Denver consistently and accurately compiled financial data from field activities and other sources in preparing the FY 2000 financial statements for the working capital funds of the Air Force, the U.S. Transportation Command, the Defense Security Service, and the Joint Logistics Systems Center. However, the objective was revised to determine whether the accounting entries made by the Defense Finance and Accounting Service Denver in compiling those FY 2000 financial statements were adequately supported and complied with generally accepted accounting principles. We also reviewed applicable internal controls and compliance with laws and regulations, including the management control program.

Results. In compiling the Air Force Working Capital Fund financial statements, the Defense Finance and Accounting Service Denver made \$105.0 billion in accounting entries. Of that amount, entries for \$32.0 billion were unsupported and \$4.3 billion were improper. Similarly, in compiling the financial statements for the working capital funds of the U.S. Transportation Command, Defense Security Service, and the Joint Logistics Systems Center, the Defense Finance and Accounting Service Denver made \$22.7 billion in accounting entries. Of that amount, entries for \$10.0 billion were unsupported. The Defense Finance and Accounting Service Denver made progress in reducing the volume of and improving the support for accounting entries. However, the problem with unsupported and improper accounting entries remains and affects the

accuracy and reliability of the financial statements prepared for the working capital funds of the Air Force and other Defense organizations. For details of the audit results, see the Finding section of the report. See Appendix A for details on the review of the management control program, as it relates to controls over accounting entries, and Appendix B for a comparison to prior audit results.

Summary of Recommendations. We recommend that the Under Secretary of Defense (Comptroller) revise the DoD Financial Management Regulation related to unresolved abnormal balances, footnote disclosures for elimination entries, and returns to vendor pending credit; and also revise an internal Air Force Working Capital Fund inventory model to correctly report holding gains and losses related to excess, obsolete, and beyond repair inventory. We recommend that the Director, Defense Finance and Accounting Service Denver, record collections of accounts receivable in the correct accounting period, follow the DoD Financial Management Regulation and related internal guidance to adequately support all accounting entries, and provide additional training to users of one key automated system.

Management Comments. The Under Secretary of Defense (Comptroller) did not comment on a draft of this report issued on April 4, 2001. The Defense Finance and Accounting Service concurred in all but one recommendation. Management concurred in principle with providing required support for its accounting entries, stating the unsupported and improper entries were made to improve the accuracy of the financial statements. A new system modification will remedy confusion over unsupported entries. See the Finding section of the report for a discussion of the management comments and the Management Comments section for the complete text.

Audit Response. Comments by the Defense Finance and Accounting Service are fully responsive, except for incomplete comments concurring in principle in Recommendation 2b. We therefore revised the recommendation for increased clarity. Management's comments on that recommendation did not address the corrective actions taken or planned with respect to inadequately documented future entries. In addition, the system modification will have no impact on working capital funds because it will only be used for general funds. We request comments from the Under Secretary of Defense (Comptroller) and additional comments from Defense Finance and Accounting Service on one recommendation by August 27, 2001.

Table of Contents

Executive Summary	i
Introduction	
Background	1
Objective	2
Finding	
Accounting Entries	4
Appendixes	
A. Audit Process	
Scope	16
Methodology	17
Management Control Program Review	17
Prior Coverage	18
B. Comparison of FYs 1999 and 2000 Audit Results	19
C. Report Distribution	23
Management Comments	
Defense Finance and Accounting Service	25

Background

Audit Requirement. Public Law 101-576, the “Chief Financial Officers (CFO) Act of 1990,” November 15, 1990, as amended by Public Law 103-356, the “Federal Financial Management Act of 1994,” October 13, 1994, requires DoD to submit to the Office of Management and Budget annual financial statements that have been audited by the Inspector General. This audit is one in a series of audits of department-level accounting entries made by the Defense Finance and Accounting Service (DFAS) in preparing the FY 2000 financial statements for DoD reporting entities. The audit supported the audits of the FY 2000 financial statements for the DoD and the Department of the Air Force Working Capital Fund (WCF). The Inspector General, DoD, and the Air Force Audit Agency disclaimed an opinion on those financial statements.

Department-Level Accounting. DFAS Denver performed the department-level accounting and compiled the FY 2000 financial statements for the following WCFs:

- Department of the Air Force WCF with total assets of \$20.4 billion and a total net position of \$16.5 billion,
- U.S. Transportation Command (USTRANSCOM) WCF with total assets of \$2.6 billion and a total net position of \$1.2 billion,
- Defense Security Service (DSS) WCF with total assets of \$39.3 million and a total net position of negative \$39.5 million, and
- Joint Logistics Systems Center (JLSC)¹ WCF with total assets of \$106.6 million and a total net position of \$65.0 million.

The latter three organizations are included in the FY 2000 DoD Agency-Wide Financial Statements as part of the Other Defense Organizations (ODO) WCF. The Department of the Treasury considers the USTRANSCOM to be part of the Air Force WCF. The financial statements are compiled by DFAS Denver from accounting data obtained from several departmental automated information systems.² This audit focused on the accounting entries made by DFAS Denver in the Air Force Stock Fund Accounting System, the Chief Financial Officers Reporting System, and the Defense Departmental Reporting System (DDRS).

Air Force Stock Fund Accounting System. The Air Force Stock Fund Accounting System module is part of the Departmental On-line Accounting and

¹The accounting function for JLSC, whose operations were closed on September 30, 1998, is limited to the closing of residual accounting balances.

²Unless otherwise noted, references to account numbers in this report are based on the U.S. Standard General Ledger.

Reporting System. DFAS Denver uses this system to prepare monthly trial balances and reports and year-end closing accounting entries for the Supply Management Activity Group and the JLSC.

Chief Financial Officers (CFO) Reporting System. The CFO Reporting System provides DFAS Denver with the capability to produce the financial statements for the Air Force WCF and ODO WCF. The CFO Reporting System is initially populated with accounting data from the Air Force Stock Fund Accounting System module and the Microsoft® Excel spreadsheets. DFAS Denver manually inputs additional accounting data. Outputs from the CFO Reporting System were initial inputs made to the DFAS Arlington³ DDRS for the final preparation of the FY 2000 Air Force WCF and ODO WCF financial statements.

Defense Departmental Reporting System. DFAS Arlington developed DDRS for use in preparing the FY 2000 financial statements for Air Force WCF, ODO WCF, and other DoD reporting entities. Outputs from the CFO Reporting System were used to populate DDRS. DFAS Denver entered additional accounting entries in DDRS in compiling the Air Force WCF and ODO WCF financial statements.

We also examined the Microsoft® Excel spreadsheets used by DFAS Denver to prepare the monthly trial balances and reports and year-end closing entries for the USTRANSCOM, Depot Maintenance Activity Group, and DSS.

Department-Level Accounting Entries. During FY 2000, DFAS Denver made 814 department-level accounting entries for \$127.7 billion⁴ that affected the year-end balances⁵ reported on the FY 2000 financial statements for those working capital funds. Those accounting entries were made monthly and at the end of the fiscal year.

Objective

The original objective of the audit was to determine whether DFAS Denver consistently and accurately compiled financial data from field activities and other sources in compiling the FY 2000 financial statements for the working capital funds of the Air Force, USTRANSCOM, DSS, and JLSC. However, the objective was revised to determine whether the accounting entries made by DFAS Denver in preparing those FY 2000 financial statements were adequately supported and complied with generally accepted accounting principles (GAAP).

³DFAS Arlington is the nomenclature for Headquarters, DFAS.

⁴The dollar values of accounting entries are discussed in this report only in terms of their debit values.

⁵The totals exclude 298 accounting entries for \$140.7 billion made by DFAS Denver during the first 11 months of FY 2000, which had a net zero effect on the financial statements. Made to revalue Air Force WCF inventory at its approximate historical cost, those entries were subsequently reversed at the beginning of the next month. Only the year-end inventory revaluation entries are included in the report discussions because of their effect on the Air Force WCF financial statements.

We also reviewed applicable internal controls and compliance with laws and regulations, including the management control program. See Appendix A for a discussion of the audit scope and methodology, the management control program, and prior coverage. See Appendix B for a discussion comparing the audit results for FYs 1999 and 2000.

Accounting Entries

DFAS Denver made 548 accounting entries for \$105.0 billion in preparing the FY 2000 Air Force WCF financial statements. Of those accounting entries, 152 entries for \$32.0 billion were unsupported while another 8 entries for \$4.3 billion were improper. DFAS Denver also made 266 accounting entries for \$22.7 billion in preparing the FY 2000 financial statements for the working capital funds of the U.S. Transportation Command, Defense Security Service, and the Joint Logistics Systems Center. Of those accounting entries, 65 entries for \$10.0 billion were unsupported. Unsupported and improper entries were made because the DoD Financial Management Regulation provided incomplete and improper accounting guidance. Further, DFAS Denver did not always follow DoD and DFAS guidance on journal vouchers. Although DFAS Denver has made progress in reducing the volume of and improving support for its accounting entries, the problem with unsupported and improper accounting entries remains. As a result, unsupported and improper accounting entries continue to affect the accuracy and reliability of the Air Force WCF and ODO WCF financial statements.

Guidance on Accounting Entries

DoD Financial Management Regulation. DoD Regulation 7000.14-R “DoD Financial Management Regulation,” volume 6A, “Reporting Policy and Procedures,” January 2001 (as revised), 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 included in the reports are derived. This guidance requires both DFAS and its customers to adequately support, and justify in writing, any adjustment to official accounting records and states that:

The documentation shall include the rationale and justification for the adjustment, the detail numbers and dollar amounts of errors or conditions that are related to the transactions or records that are proposed for adjustment, the date of the adjustment, and the name and position of the individual approving the adjustment. The documentation also shall be sufficient to provide an audit trail to the detail transaction(s) being adjusted or corrected.

DFAS Guidance. DFAS Denver uses journal vouchers to document the nature of and approval for accounting entries made to data in the CFO Reporting System and DDRS. Automated controls in both systems are designed to prevent unapproved accounting entries from affecting the general ledger amounts included on the financial statements. While manually approved, journal vouchers are also used to document the accounting entries made in the Air Force Stock Fund Accounting System and in certain Microsoft® Excel spreadsheets. Accounting entries should be posted to the general ledger and affect the general ledger only after appropriate approval has been obtained.

On October 28, 1999, the Director for Accounting, DFAS Arlington, issued a memorandum, "Journal Voucher Guidance," establishing specific guidance for documenting and approving accounting entries. On August 2, 2000, the Director for Accounting, DFAS Arlington, updated the guidance, which specifies documentation requirements for correcting source journal voucher entries. The memorandum also established thresholds for approval of journal vouchers.

The DFAS guidance did not provide any performance standards or an action plan with metrics for measuring progress in implementing the journal voucher guidance. In addition, DFAS guidance allowed journal vouchers to be submitted and approved 5 workdays before all supporting documentation had been identified and made available to the approving official. No journal voucher should be submitted for approval until all supporting documentation is made available to the approving official. Appropriate changes to the DFAS guidance were recommended in the Inspector General, DoD, Report No. D-2001-107, "Accounting Entries Made by the Defense Finance and Accounting Service Omaha to U.S. Transportation Command Data Reported in DoD Agency-Wide Financial Statements," May 2, 2001.

Reporting Categories. Based on the DoD regulation and implementing DFAS guidance, we determined whether the accounting entries were supported, unsupported, improper, or not reviewed. Details are provided in Appendix B on the four reporting categories.

Comparison to FY 1999

Unsupported and improper accounting entries made by DFAS Denver in compiling the FY 2000 Air Force WCF and ODO WCF financial statements continue to represent material control weaknesses. However, DFAS Denver made progress in significantly reducing the volume of accounting entries made during FY 2000 compared to FY 1999. For example, the \$105.0 billion of accounting entries made in compiling the FY 2000 Air Force WCF financial statements were 42 percent⁶ less than those made in FY 1999. Similarly, DFAS Denver reduced by 79 percent⁶ the value of accounting entries made in compiling the FY 2000 ODO WCF financial statements. Unsupported accounting entries made in preparing the FY 2000 Air Force WCF and ODO WCF financial statements were reduced by 59 percent and 70 percent,⁶ respectively. Improper accounting entries made in compiling the FY 2000 ODO WCF decreased to zero from \$5.9 billion. However, the \$4.3 billion in improper entries made in compiling the FY 2000 Air Force WCF financial statements represented a significant increase from the \$0.2 billion made in FY 1999. Details on the comparison of FYs 1999 and 2000 audit results and explanations for the changes are provided in Appendix B.

⁶The percentages are calculated from the dollar values shown in Appendix B.

Despite the improvements made by DFAS Denver in some areas, the magnitude of unsupported and improper accounting entries made in FY 2000 continues to be a material control weakness. Table 1 shows that additional corrective actions are required to improve the documentation of accounting entries and comply with generally accepted accounting principles.

Table 1. DFAS Denver FY 2000 Accounting Entries (dollars in billions)					
Reporting Category	Air Force WCF	Other Defense Organizations WCF			Total
		USTRANSCOM	DSS	JLSC	
Supported (entries)	\$68.7 (388)	\$12.6 (174)	\$0.1 (25)	\$0.0* ¹ (2)	\$12.7 (201)
Unsupported (entries)	32.0 (152)	9.3 (50)	0.6 (11)	0.1 (4)	10.0 (65)
Improper (entries)	4.3 (8)	0.0 (0)	0.0 (0)	0.0 (0)	0.0 (0)
Total (entries)	\$105.0 (548)	\$21.9 (224)	\$0.6**² (36)	\$0.2**² (6)	\$22.7 (266)

¹The dollar values discussed in the report round to zero.

²The column dollar value does not add up due to rounding.

Unsupported Entries

As detailed in Table 2, in compiling the Air Force WCF financial statements, DFAS Denver made 152 accounting entries for \$32.0 billion that were unsupported. For the ODO WCF financial statements, DFAS Denver made 65 entries for \$10.0 billion that were unsupported. Accounting entries were considered unsupported if the documentation for the entries was inadequate, the entries were made to force accounting data to match for elimination purposes, or the entries were made to force amounts into the accounting system. Entries were forced if they were made to make amounts agree or to distribute amounts based on an arbitrary process.

<u>Reason Unsupported</u>	Air Force <u>WCF</u>	<u>Other Defense Organizations WCF</u>			
		<u>USTRANSCOM</u>	<u>DSS</u>	<u>JLSC</u>	<u>Total</u>
<u>Forced Entries:</u>					
Proprietary accounts (entries)	\$0.9 (17)	\$0.2 (3)	\$0.0 (0)	\$0.0* (1)	\$0.2 (4)
Budgetary Accounts (entries)	22.5 (21)	5.0 (5)	0.4 (1)	0.1 (1)	5.5 (7)
Subtotal (entries)	23.4 (38)	5.2 (8)	0.4 (1)	0.1 (2)	5.7 (11)
Forced elimination entries (entries)	7.7 (91)	2.6 (20)	0.2 (6)	0.0* (2)	2.8 (28)
Inadequate documentation (entries)	0.9 (23)	1.5 (22)	0.0* (4)	0.0 (0)	1.5 (26)
Total (entries)	\$32.0 (152)	\$9.3 (50)	\$0.6 (11)	\$0.1 (4)	\$10.0 (65)

*The dollar values discussed in the Finding section round to zero.

Forced Entries to Proprietary Accounts. DFAS Denver made these entries when it identified abnormal balances in accounts, which could not be resolved with their customers prior to the exchange of intra-DoD trading partner data.

Guidance on Abnormal Balances. DoD Regulation 7000.14-R, volume 6B, "Form and Content of DoD Audited Financial Statements," chapter 13, "FY 2000 Adjustments, Eliminations, and Other Special Intragovernmental Reconciliation Procedures," December 2000, requires DoD accounting centers to eliminate abnormal balances in intra-DoD trading partner data. Specifically, it states:

This review shall identify any abnormal balances such as negative revenue. The DoD accounting centers shall work with their customers to resolve the abnormal balances and eliminate them before exchanging intra-DoD trading partner data.

A negative revenue account or other abnormal balances represent account balances that should not occur in applying generally accepted accounting principles. Abnormal balances may exist in certain accounts before accounting entries are made to eliminate transactions between intra-DoD trading partners.

Those abnormal balances may be reflected in the trial balances provided to DFAS Denver by field organizations and in other data used to prepare the Air Force WCF and ODO WCF financial statements. Abnormal balances may also be created when DFAS Denver makes accounting entries to allocate undistributed collections to accounts receivable and undistributed disbursements to accounts payable. As noted in DoD Regulation 7000.14-R, DoD systems were designed and implemented before the requirement existed to eliminate intragovernmental transactions. Deficiencies in the design of those DoD systems often cause abnormal balances to occur.

DoD Regulation 7000.14-R clearly requires DoD accounting centers to work with their customers in resolving abnormal balances. However, the regulation does not clearly state that unresolved abnormal balances should be reported. Instead, as discussed below, DFAS Arlington interpreted the guidance to mean that unresolved abnormal balances should be arbitrarily eliminated before exchanging intra-DoD trading partner data.

Year-End Entries. DFAS Denver made 17 year-end accounting entries for \$878.6 million for the Air Force WCF, 3 year-end entries for \$186.0 million for USTRANSCOM, and 1 year-end entry for \$40.0 million for JLSC that eliminated abnormal balances. DFAS Denver made all these entries to eliminate unresolved abnormal balances in response to directions from DFAS Arlington. DFAS Arlington interpreted the DoD guidance on abnormal balances to mean that such arbitrary entries should be made to eliminate unresolved abnormal balances before exchanging intra-DoD trading partner data. An example of this condition is accounting entry D20000053 that arbitrarily accrued \$8,119.86 to Accounts Receivable—Public (Account 1310) and Revenue from Goods Sold—Public (Account 5100). This entry was made to change the abnormal negative balance in Accounts Receivable—Public to a zero balance. DFAS Arlington approved this accounting entry. This is an unsupported accounting entry because an accounting event did not actually take place for the accounting entry to document. To comply with GAAP, DFAS Denver should not arbitrarily eliminate unresolved abnormal balances. The DoD guidance should be revised to clearly state that unresolved abnormal balances must be reported in accordance with GAAP.

Forced Entries to Budgetary Accounts. This condition exists when budgetary accounts are populated from data in the Standard Form (SF) 133, “Report on Budget Execution” rather than at the transaction level. Current accounting systems for the Air Force, USTRANSCOM, JLSC, and DSS had not fully implemented budgetary accounting and were being replaced or upgraded. As a result, DFAS Denver had to use the SF 133 to make these entries to populate the budgetary accounts for the preparation of the financial statements.

Monthly Entry. DFAS Denver made one forced entry for \$1.5 million to budgetary accounts of the Air Force WCF. Supporting data showed that the entry was required to correct the out-of-balance condition in an accounting reconciliation made in previous years. We considered the entry to be the incorporation of unsupported budgetary data into accounting records because there was no indication of what part of the accounting reconciliation was out of

balance, no discussion of what caused the out-of-balance condition, and no indication of how the amount was determined. The forced entry, however, was omitted from the account balance when calculating accounts receivable on the year-end SF 133.

Year-End Entries. In FY 2000, DFAS Denver made 20 year-end accounting entries for \$22.5 billion for the Air Force WCF and 7 year-end accounting entries for \$5.5 billion for the ODO WCF that were forced entries to budgetary accounts. As noted above, DFAS Denver had to make these 27 unsupported year-end accounting entries because they do not use the budgetary general ledger accounts at the transaction level. Inspector General, DoD, Report No. D-2000-166, "Compilation of the FY 1999 Financial Statements for Air Force and Other Defense Organizations Working Capital Funds," July 21, 2000, identified similar forced entries made in FY 1999. DFAS has initiatives underway to upgrade or implement accounting systems that will incorporate the full U.S. Standard General Ledger, including budgetary accounts at the transaction level. As a result, we did not make a recommendation regarding this condition.

Forced Elimination Entries. These elimination entries are made to comply with DoD Regulation 7000.14-R, volume 6B, chapter 13. The regulation states that for FY 2000 reporting, elimination entries and adjustments will be based on the information supplied by the seller/service provider.

The accounting centers then compare these balances to summary buyer-side data at the entity code trial balance level. Based on these comparisons, the amount of unrecorded intragovernmental transactions on the buyer-side can be calculated and the applicable accrual entries recorded.

The guidance does emphasize that the DoD accounting centers should ensure that the seller-side information from trading partners is correct. However, because of time constraints, the DoD accounting center is not required to perform a detailed reconciliation to determine why the seller-side information is correct and the buyer-side information is incorrect.

For example, if the intragovernmental trading partners of the Air Force WCF notify the Air Force WCF that they sold it \$10,000 worth of goods and services, then the Air Force WCF will have to show \$10,000 in the appropriate intragovernmental expense account. If the Air Force WCF does not have \$10,000 in the account, then it must accrue the difference to build up to the \$10,000 in the account. DFAS Denver researches the difference, but if the trading partner determines that its information is correct, then DFAS Denver accrues the difference so that the accounting records agree with the trading partners. Because of time constraints involved in the financial statement preparation process, a detailed reconciliation is not performed to the sales ticket or accounts receivable detail level. This type of accounting entry is unsupported because no actual accounting event took place to support the adjustment and a reconciliation was not performed where sales or accounts receivable documents were compared to accounting records.

DFAS Denver made 91 year-end accounting entries for \$7.7 billion to the Air Force WCF and 28 year-end entries for \$2.8 billion to the ODO WCF to force agreement between its buyer-side summary records and the seller-side summary information received from other trading partners. The elimination entry adjustments required of DoD entities by DoD Regulation 7000.14-R were previously addressed in Inspector General, DoD, Report No. D-2001-042, "Accounting and Disclosing Intragovernmental Transactions on the DoD Agency-Wide Financial Statements," January 31, 2001. The report recommended that the Under Secretary of Defense (Comptroller) modify DoD Regulation 7000.14-R to require reconciliations of differences between buyer-side and seller-side information and disclosures of unreconciled differences in the footnotes to the financial statements. The Under Secretary of Defense (Comptroller) responded that, due to the large amount of intragovernmental transactions and inadequate accounting systems, it is not feasible to rely on after-the-fact reconciliations. The Under Secretary of Defense (Comptroller) added that this limitation would be disclosed in a footnote to the financial statements. Footnote 1.F. to the FY 2000 financial statements of the Air Force WCF, USTRANSCOM, and DSS contains that disclosure. However, the footnotes to those financial statements did not disclose the dollar value of accruals made for unreconciled differences to force agreement between the entity's buyer-side summary records and the seller-side summary information that it received from other trading partners. Disclosing the magnitude of such unsupported accruals by U.S. Treasury index or trading partner would give users of DoD financial statements a basis for evaluating the materiality of this weakness in the entity's intragovernmental elimination process.

Inadequate Documentation. DoD Regulation 7000.14-R, volume 6A, requires customers of DFAS to fully support the amount and purpose of accounting entries. DFAS Denver did not provide full supporting documentation for some of its accounting entries.

Monthly Accounting Entries. Supporting documentation for nine Air Force WCF monthly accounting entries for \$171.4 million was incomplete or did not support the entry. In addition, supporting documentation for nine monthly USTRANSCOM accounting entries for \$1.5 billion was incomplete or did not support the entry.

Year-End Accounting Entries. DFAS Denver made 14 year-end unsupported accounting entries for \$699.9 million to the Air Force WCF. In addition, DFAS Denver made 17 year-end accounting entries with incomplete documentation for \$52.6 million to the ODO WCF. Those 31 accounting entries initially did not have adequate documentation to support either the purpose or the amount. For three Air Force WCF and five ODO WCF accounting entries, DFAS Denver disagreed with the recommended accounting treatment of the reconciliation between DoD and the Office of Personnel Management related to the FY 1999 employer share of employee benefits. DFAS Denver stated that the field activities had already made the entries, but could not furnish confirmation either that the field activities were notified of the

reconciliation amount or that the field activities had actually made the accounting entry.

Improper Accounting Entries

DFAS Denver made eight improper accounting entries for \$4.3 billion that were contrary to GAAP. Of the \$4.3 billion, \$4.1 billion related to two monthly entries that incorrectly calculated the excess, obsolete, and beyond repair inventory; and related inventory losses or adjustments. The remaining six entries for \$0.2 billion related to returns to vendors pending credit and mismatched accounting periods.

Inventory—Excess, Obsolete, and Beyond Repair and Inventory Losses or Adjustments. DFAS Denver made two monthly entries for \$4.1 billion that did not comply with GAAP in the amounts reported on the Air Force WCF financial statements for two accounts: Inventory—Excess, Obsolete, and Beyond Repair (Account 1524) and Inventory Losses or Adjustments (Account 7291).

Inventory—Excess, Obsolete, and Beyond Repair. In making the two entries, DFAS Denver overstated by \$45.3 million the Inventory—Excess, Obsolete, and Beyond Repair account. The inventory was overstated because DFAS Denver personnel used an incorrect salvage value of 2.9 percent of the inventory's latest acquisition cost. In calculating the inventory amount, DFAS Denver should have used the 1.8-percent rate established by the Director for Accounting, DFAS Arlington, on September 28, 2000. The error occurred for two reasons. First, because of inadequate training, a DFAS Denver employee did not properly update the electronic worksheet used to calculate the inventory amount for the reduced salvage rate. Additional on-the-job training was provided to that employee during the audit. Second, when the error was detected, DFAS Denver personnel were not able to make the necessary correction in the time available because of their unfamiliarity with the new DDRS. Additional DDRS training should be provided to those DFAS Denver personnel.

Inventory Losses or Adjustments. In making the same two entries, inventory losses or adjustments applicable to the excess, obsolete, and beyond repair inventory were overstated by an additional \$9.7 million on the financial statements. This overstatement occurred because DFAS Denver personnel relied on an Air Force WCF inventory model from the Under Secretary of Defense (Comptroller) that incorrectly calculated realized holding gains that were related to the inventory identified as excess, obsolete, or beyond repair. The Air Force WCF inventory model multiplied the ratio of the holding gains allowance to the total inventory available by the value at latest acquisition cost of the inventory identified as excess, obsolete, and beyond repair less its salvage value. DoD Regulation 7000.14-R, volume 11B, "Reimbursable Operations Policy and Procedures-Working Capital Funds," December 1994, shows that the salvage value should not be subtracted in the calculation. The Air Force WCF inventory model should be revised to correctly calculate inventory holding gains and losses.

Return to Vendors Pending Credit. DFAS Denver made four year-end entries to the Air Force WCF for \$146.6 million that were contrary to GAAP for accounting for returns to vendors pending credit. The entries made by DFAS Denver incorrectly recorded returns to vendors pending credit as an Other Assets—Government, Entity (Account 1990). Instead, DFAS Denver should have recorded it as an Accounts Receivable—Government, Entity (Account 1311) since the returned items were no longer held in inventory. The receivable should only be liquidated when the credit is received from the vendor. Only at that time, should the difference between the book value of the item and the actual refund be recorded as a loss.

A similar issue at DFAS Cleveland was reported in Inspector General, DoD, Report No. D-2000-140, “Compilation of the FY 1999 Department of the Navy Working Capital Fund Financial Statements,” June 7, 2000. The report stated that DFAS Cleveland did not properly record returned items as Property Returned to Government (Suppliers) for Credit (Accounts 15901 and 15902⁷). Instead, DFAS Cleveland left the returned items in Inventory Held for Sale; whereas, DFAS Denver removed similar returned items from that inventory account and recorded them as Other Assets. This inconsistency and resultant noncompliance with GAAP resulted from the lack of guidance on the proper accounting treatment in DoD Regulation 7000.14-R, volume 4, “Accounting Policy and Procedures,” January 2001; and volume 11B, “Reimbursable Operations Policy and Procedures Working Capital Funds,” December 1994. That is, the regulation did not specify the accounting treatment for returned items pending credit from commercial vendors or other Government entities.

Accounting Period. Two monthly entries for \$2.6 million did not comply with GAAP requirements that transactions be recorded in the accounting period in which they occurred. One entry recorded the FY 1999 collections of \$1.1 million as if made in FY 2000. This entry reversed an FY 1999 entry that had improperly reversed a previous FY 1999 entry. The previous FY 1999 entry reduced accounts receivable and undistributed collections for collections related to the sale of fuel to foreign governments. During July 2000, we informed DFAS Denver that the FY 1999 reversal entry was contrary to GAAP by improperly reducing accounts receivable and undistributed collections, and that the FY 2000 reversal entry violated GAAP by moving FY 1999 undistributed collections to FY 2000. A second entry made in September 2000 processed another improper entry for \$1.5 million in September 2000 that reversed a previous FY 2000 entry. The previous FY 2000 entry had reduced accounts receivable and undistributed collections for collections related to the sale of fuel to foreign governments. The previous entry properly assigned the collection to a specific receivable and was supported by collection vouchers processed by the disbursing officer, DFAS Denver.

Documentation for the improper FY 1999 and FY 2000 entries that increased receivables and undistributed collections stated that the improper entries were made because the information related to the collections had not been received from the automated By-Others disbursing system. However, documentation for

⁷Navy Industrial Fund Chart of Accounts.

the transactions showed that the initial FY 1999 and FY 2000 collection entries properly reduced accounts receivable and undistributed collections in accordance with GAAP.

Summary

DFAS Denver made progress in the preparation and support of FY 2000 accounting entries. However, additional improvements are needed.

Of the \$32.0 billion in unsupported accounting entries made to the Air Force WCF accounting records,

- \$31.1 billion resulted from systems limitations or inadequate guidance from the Under Secretary of Defense (Comptroller) and DFAS Arlington, and
- \$871.4 million in unsupported accounting entries resulted from DFAS Denver not fully implementing guidance in DoD Regulation 7000.14-R and internal guidance.

Of the \$4.3 billion in improper accounting entries made to Air Force WCF accounting records,

- \$4.3 billion resulted from inadequate guidance from the Under Secretary of Defense (Comptroller) and DFAS Arlington, and
- \$2.6 million resulted from DFAS Denver not fully implementing guidance in DoD Regulation 7000.14-R and internal guidance.

Of the \$10 billion in unsupported accounting entries made to the accounting records of the USTRANSCOM, DSS, and JLSC,

- \$8.4 billion resulted from systems limitations or inadequate guidance from the Under Secretary of Defense (Comptroller) and DFAS Arlington, and
- \$1.6 billion resulted from DFAS Denver not fully implementing guidance in DoD Regulation 7000.14-R and internal guidance.

Recommendations, Management Comments, and Audit Response

1. We recommend that the Under Secretary of Defense (Comptroller):

a. Revise DoD Regulation 7000.14, volume 6B, chapter 13, to clearly state that unresolved abnormal balances must be reported in the financial accounting records and reports in accordance with generally accepted accounting principles.

b. Revise DoD Regulation 7000.14, volume 6B, chapter 10, to provide in Footnote 1.F. to the Principal Financial Statements the dollar value of accruals made for unreconciled differences to force agreement between the entity's buyer-side summary records and the seller-side summary information provided by its trading partners. Such accruals should be identified in the footnote by U.S. Treasury index or trading partner.

c. Correct the Air Force Working Capital fund inventory model to agree with DoD Regulation 7000.14-R, volume 11B, for the calculation of realized holding gains/losses related to inventory identified as potentially excess, obsolete, and beyond repair.

d. Revise DoD Regulation 7000.14, volumes 4 and 11B, to specify that an accounts receivable be recorded when inventory items are returned for credit to other Government entities and commercial vendors.

Management Comments Required. The Under Secretary of Defense (Comptroller) did not comment on Recommendations 1.a., 1.b., 1.c., and 1.d. We request that the Under Secretary of Defense (Comptroller) provide comments in response to the final report.

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

a. Record the liquidation of accounts receivable related to the sale of fuel to foreign governments in the accounting period in which the collection is received.

Management Comments. DFAS concurred and stated that a new system to be implemented in July 2001 will record in the correct accounting period the liquidation of accounts receivable related to the sale of fuel to foreign governments.

b. Provide supporting data for FY 2001 and future accounting entries in accordance with DoD Regulation 7000.14-R and implementing internal guidance.

Management Comments. DFAS concurred in principle and stated that the unsupported and improper accounting entries, which were made to increase the accuracy of the statements, are due to non-CFO compliant feeder systems. DFAS added that the General Accounting and Finance System-Rehost, which is scheduled for October 2002 implementation, will remedy the confusion over unsupported adjusting entries.

Audit Response. DFAS comments were nonresponsive because they are incomplete. As management stated, many of the unsupported entries were caused by accounting system deficiencies in the feeder systems used. However, this audit report also identified accounting entries classified as inadequately documented. Those inadequately documented entries resulted from failure to comply with DFAS journal voucher guidance, not accounting system deficiencies. Those inadequately documented accounting entries were valued at \$0.9 billion for the Air Force WCF and \$1.5 billion for the ODO WCF. Management's comments did not address the corrective actions taken or planned to ensure that all future accounting entries will be adequately documented. In addition, the General Accounting and Finance System-Rehost now under development will have no impact on working capital funds because it will only be used for general funds. We request that DFAS reconsider its position on the recommendation and provide additional comments.

c. Provide additional training to users of the Defense Departmental Reporting System.

Management Comments. DFAS concurred and stated that additional training on DDRS will be provided to users during October 2001.

Appendix A. Audit Process

Scope

Work Performed. We reviewed the documentation supporting the accounting entries that DFAS Denver made to FY 2000 accounting records of the Air Force, USTRANSCOM, DSS, and JLSC working capital funds. Accounting entries made by DFAS Denver included 814 accounting entries for \$127.7 billion. In addition, DFAS Denver made 298 accounting entries for \$140.7 million during the first 11 months of FY 2000 that had a net zero effect on the Air Force WCF financial statements.

Limitation to Audit Scope. DFAS Denver may have made accounting entries in the Merged Accountability and Fund Reporting System or other department-level automated information systems that were not included in the scope of this audit, which was limited to department-level accounting entries made in the:

- Air Force Stock Fund Accounting System,
- CFO Reporting System, and
- DDRS.

The audit also examined Microsoft® Excel spreadsheets used to prepare monthly trial balances, reports, and year-end closing entries for the USTRANSCOM, Depot Maintenance Activity Group, and DSS.

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 corporate-level goal, subordinate performance goal, and performance measures.

- **FY 2001 DoD Corporate-Level Goal 2:** Prepare now for an uncertain future by pursuing a focused modernization effort that maintains U.S. qualitative superiority in key warfighting capabilities. Transform the force by exploiting the Revolution in Military Affairs, and reengineer the Department to achieve a 21st century infrastructure. **(01-DoD-02)**
- **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 finance systems. **(01-DoD-2.5.1.)**

-
- **FY 2001 Performance Measure 2.5.2:** Achieve unqualified opinions on financial statements. **(01-DoD-2.5.2.)**

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

- **Financial Management Area. Objective:** Strengthen internal controls. **Goal:** Improve compliance with the Federal Managers' Financial Integrity Act. **(FM 5.3)**

General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in the DoD. 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 the Air Force Stock Fund Accounting System module of the Departmental On-Line Accounting and Reporting System, the Chief Financial Officer Reporting System, DDRS, and certain Microsoft® Excel spreadsheets. We did not evaluate the general and application controls of these systems because the process for preparing and approving accounting entries at DFAS Denver is primarily a manual process. Not evaluating the controls did not affect the results of the audit since we reviewed all accounting entries.

Audit Type, Dates, and Standards. We performed this financial-related audit from June 2000 through March 2001 in accordance with auditing standards that the Comptroller General of the United States issued, as implemented by the Inspector General, DoD. We performed our work in accordance with generally accepted Government auditing standards except 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. We included tests of management controls considered necessary.

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

Management Control Program Review

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996, require DoD organizations to implement a comprehensive system of management controls that provide reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of the Review of the Management Control Program. We reviewed the adequacy of DFAS Denver's management controls over the approval, accounting, and support for department-level accounting entries. We also reviewed management's self-evaluation applicable to those controls.

Adequacy of Management Controls. We identified material management control weaknesses as defined in DoD Instruction 5010.40. Management controls at DFAS Denver were not adequate to ensure that all accounting entries were proper or adequately supported. We reported similar management control weaknesses in Inspector General, DoD, Report No. D-2000-166. If implemented, Recommendations 1.a., 1.b., 1.c., and 1.d., and 2.a., 2.b., and 2.c. will improve the controls over the process for making accounting entries. We will provide a copy of the report to the senior official in charge of management controls at DFAS Denver.

Adequacy of Management's Self-Evaluation. DFAS Denver identified controls over the preparation of financial statements as an assessable unit but did not identify controls over accounting entries as an assessable unit. DFAS Denver evaluated the preparation of financial statements and controls over accounting entries. In its evaluations, DFAS Denver did not identify material weaknesses related to controls over accounting entries identified by this audit because their review was not sufficiently detailed to identify those weaknesses. In its Annual Statement of Assurance, DFAS reported a material weakness related to not implementing the U.S. Standard General Ledger at the transaction level.

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/audit/reports>.

Appendix B. Comparison of FYs 1999 and 2000 Audit Results

Reporting Categories

Accounting entries made by DFAS Denver were categorized as supported, unsupported, improper, or not reviewed. In the FY 1999 audit, improper entries were included in the unsupported entries.

Supported Entries. Except for entries considered unsupported or improper, supported accounting entries are original data entries made in the accounting records for:

- data submitted by authorized organizations, other data originating within DFAS systems, and data calls made by DFAS sites to obtain data not otherwise available;
- inventory revaluation and other entries required by DoD Regulation 7000.14-R or other published requirements; and
- year-end closing entries, reversals of required entries and closing entries, and corrections of errors.

Unsupported Entries. Accounting entries are unsupported when the documentary support or audit trails are inadequate at the time such entries were submitted for approval (or absent required approval, when the entries were made). Thus, to emphasize the underlying documentation control weaknesses, accounting entries are still identified in this report as unsupported in those instances where DFAS Denver subsequently provided additional documentary support and explanations of audit trails. Unsupported entries represent:

- elimination entries and other entries made to force agreement between accounting records because of accounting system deficiencies or other problems,
- entries made where no documentary support was available or where the documentation provided did not support the dollar amount or inadequately described the purpose and reason for making the entry, and
- entries made where the audit trails to supporting documentation were inadequate.

Improper Entries. Improper accounting entries represent those that are either illogical or contrary to generally accepted accounting principles.

Not Reviewed. These accounting entries were identified by the audit but not reviewed because of time limitations for conducting the audit.

Comparison to Prior Year

We reviewed and reported on the FY 1999 accounting entries made by DFAS Denver to the accounting records of the Air Force WCF and ODO WCF in Inspector General, DoD, Report No. D-2000-166. Tables B-1 and B-2 compare the results of the audits of accounting entries made in compiling the FYs 1999 and 2000 Air Force WCF and ODO WCF financial statements, respectively.

Though material control weaknesses remain, as noted in the Finding section of this report and in Tables B-1 and B-2, DFAS Denver did make significant progress in reducing the volume of and improving the support for accounting entries made in compiling the FY 2000 Air Force WCF and ODO WCF financial statements. For example, during the first 11 months of FY 2000, DFAS Denver made 18 inventory revaluation entries for \$32.5 million that incorrectly posted realized holding losses related to inventory period expenses as if they were holding gains.* These incorrect entries understated actual period expenses and misstated the Accounting Report (M) 1307, "Defense Working Capital Fund Accounting Report," and SF 133 reports issued during the first 11 months of FY 2000. After being alerted to those incorrect postings, DFAS Denver corrected its posting procedures and correctly posted year-end realized holding losses related to period expenses for Air Force WCF financial statements and managerial financial reports issued for September 30, 2000.

The differences between FY 1999 and FY 2000 occurred primarily because of the following factors.

- In FY 1999, because of a change in procedure, DFAS Denver had to load FY 1997 and 1998 budgetary information into the computer system used to prepare the FY 1999 Air Force WCF financial statements so that budgetary information could be calculated. Such entries were not required in FY 2000.
- In FY 1999, the decision to move USTRANSCOM from the Air Force WCF to the ODO WCF for financial statement purposes came after preparation of the FY 1999 financial statements had already started. As a result, DFAS Denver had to prepare accounting entries in FY 1999 to reverse the USTRANSCOM balances out of the Air Force WCF financial statements and into the ODO WCF financial statements. Such entries were not required in FY 2000.

*The 18 inventory revaluation entries are not included in the unsupported or improper accounting entries discussed in this report. Those entries had a net zero effect on the FY 2000 Air Force WCF and ODO WCF financial statements because they were reversed at the beginning of the next month.

- In FY 1999, 30 accounting entries made in preparing the Air Force WCF and ODO WCF financial statements were unsupported because they had inadequate audit trails. An accounting entry has inadequate documentation if documentation is present that may support the amount or the purpose for the accounting entry, but the auditor is unable to follow the chain of documentation. In FY 2000, DFAS Denver provided adequate audit trails for all of the accounting entries made, though some entries were identified as unsupported for other reasons.
- In FY 2000, DFAS Denver researched the difference between different data sources and showed why the accounting records needed to be adjusted. Where the accounting entries forced balances, DFAS Denver was following Under Secretary of Defense (Comptroller) or DFAS Arlington requirements.
- DFAS Denver prepared seven times the number of accounting entries for the DSS in FY 2000 as in FY 1999 because DFAS Denver started entering departmental accounting data for the DSS in mid-FY 1999. As a result, FY 2000 was the first full year DFAS Denver provided this service.

Table B-1. FYs 1999 and 2000 Audits of Accounting Entries Made in Compiling the Air Force WCF Financial Statements

Reporting Category*	Number of Accounting Entries		Amount (in billions)	
	FY 1999	FY 2000	FY 1999	FY 2000
Supported	293	388	\$ 90.5	\$ 68.7
Unsupported	242	152	78.9	32.0
Improper	3	8	0.2	4.3
Not reviewed	32	0	11.2	0.0
Total	570	548	\$180.8	\$105.0

*For comparison purposes, unsupported FY 1999 accounting entries that were illogical or contrary to GAAP are restated as “improper” to reflect FY 2000 reporting categories.

Table B-2. FYs 1999 and 2000 Audits of Accounting Entries Made in Compiling the ODO WCF Financial Statements

<u>Reporting Category</u> ¹	Number of Accounting Entries		Amount (in billions)	
	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 1999</u>	<u>FY 2000</u>
<u>DoD Agency-Wide Other Defense Organizations—WCFs:</u>				
<u>USTRANSCOM:</u>				
Supported	61	174	\$ 63.2	\$ 12.6
Unsupported	105	50	31.2	9.3
Improper	5	0	5.9	0.0
Not reviewed	4	0	4.7	0.0
Subtotal	175	224	\$105.0	\$ 21.9
<u>DSS:</u>				
Supported	1	25	\$ 0.0 ²	\$ 0.1
Unsupported	4	11	0.3	0.6
Improper	0	0	0.0	0.0
Not reviewed	0	0	0.0	0.0
Subtotal	5	36	\$ 0.3	\$ 0.6³
<u>JLSC:</u>				
Supported	15	2	\$ 2.5	\$ 0.0 ²
Unsupported	5	4	1.5	0.1
Improper	0	0	0.0	0.0
Not reviewed	0	0	0.0	0.0
Subtotal	20	6	\$ 4.0	\$ 0.2³
<u>Total:</u>				
Supported	77	201	\$ 65.7	\$ 12.7
Unsupported	114	65	33.0	10.0
Improper	5	0	5.9	0.0
Not reviewed	4	0	4.7	0.0
Total	200	266	\$109.3	\$ 22.7

¹For comparison purposes, unsupported FY 1999 accounting entries that were illogical or contrary to GAAP are restated as “improper” to reflect FY 2000 reporting categories.

²The dollar values discussed in the Finding section of the prior report round to zero.

³Dollar values in entity column do not add up due to rounding.

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

Auditor General, Department of the Army

Department of the Navy

Naval Inspector General
Auditor General, Department of the Navy

Department of the Air Force

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

Unified Commands

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

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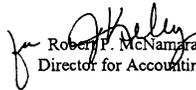
JUN -7 2001

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

SUBJECT: Audit Report on Accounting Entries Made in Compiling the FY 2000 Financial
Statements for the Working Capital Funds of the Air Force and Other Defense
Organizations (Project No. D2001-0014.002)

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-AAB/DE

**DFAS Comments on Audit Report on Accounting Entries Made in Compiling the FY 2000
Financial Statements for the Working Capital Funds of the Air Force and Other Defense
Organizations (Project No. D2001-0014.002)**

General Comments.

The DFAS Denver (DFAS-DE) requests to add the following comment to the Results section of the Executive Summary:

The primary cause of the improper and unsupported accounting entries made in preparing the FY 2000 audited financial statements was deficient automated systems.

Response to Recommendations.

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

a. Record the liquidation of accounts receivable related to the sale of fuel to foreign governments in the accounting period in which the collection is received.

Management Comments. Concur. Upon implementation of the new intransit or By-Others system, we will record the liquidation of accounts receivable related to the sale of fuel to foreign governments in the accounting period in which the collection is received.

Estimated Completion Date. July 31, 2001.

b. Provide supporting data for accounting entries in accordance with DoD Regulation 7000.14-R and implementing internal guidance.

Management Comments. Concur in Principle. The DoD IG referenced unsupported and improper entries are actually entries that had to be made to increase the accuracy of the statements. Many of the feeder systems to the Air Force statements are non-CFO compliant in providing the following: environmental liabilities data from the Air Force Restoration Management Information System; operating material information from the Standard Base Supply System, Financial Inventory Accounting And Billing System, Combat Ammunition System-Ammunition Control Point, etc.; and elimination data from the General Accounting and Finance System and Central Procurement Accounting System that does not capture trading partner data. The implementation of the General Accounting and Finance System-Rehost will remedy the confusion of unsupported adjusting entries.

Estimated Completion Date. October 31, 2002.

c. Provide additional training to users of the Defense Departmental Reporting System.

Management Comments. Concur. The Defense Departmental Reporting System-Audited Financial Statements (DDRS-AFS) program management office and DFAS centralized sites will be testing revisions to DDRS-AFS during July - September 2001. The DDRS-AFS program management office will provide training on the revised DDRS-AFS during October 2001.

Estimated Completion Date. October 31, 2001.

Audit Team Members

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

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