

# Inspector General

United States  
Department of Defense



Internal Controls Over Army General Fund,  
Cash and Other Monetary Assets Held  
Outside of the Continental United States

## Additional Information and Copies

To obtain additional copies of this report, visit the Web site of the Department of Defense Inspector General at <http://www.dodig.mil/audit/reports> or contact the Secondary Reports Distribution Unit at (703) 604-8937.

## Suggestions for Audits

To suggest ideas for or to request future audits, contact the Office of the Deputy Inspector General for Auditing at (703) 604-9142 (DSN 664-9142) or fax (703) 604-8932. Ideas and requests can also be mailed to:

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



## Acronyms and Abbreviations

AGF	Army General Fund
AR	Army Regulation
COMA	Cash and Other Monetary Assets
DASA (FO)	Deputy Assistant Secretary of the Army Financial Operations
DDS	Deployable Disbursing System
DFAS	Defense Finance and Accounting Service
DO	Disbursing Officer
DoD FMR	DoD Financial Management Regulation
DSSN	Disbursing Station Symbol Number
FASAB	Federal Accounting Standards Advisory Board
FINCOM	Finance Command
ITS	International Treasury Service
LDA	Limited Depository Account
MBF	Military Banking Facility
OCONUS	Outside the Continental United States
OMB	Office of Management and Budget
ORF	Official Representation Funds
SFFAS	Statement of Federal Financial Accounting Standards
SOA	Statement of Accountability
SOP	Standard Operating Procedures
STANFINS	Standard Finance System
SRD-1	STANFINS Redesign Subsystem 1
USACE	United States Army Corps of Engineers



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

October 9, 2008

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/CHIEF  
FINANCIAL OFFICER  
ASSISTANT SECRETARY OF THE ARMY (FINANCIAL  
OPERATIONS)

SUBJECT: Internal Controls Over Army General Fund, Cash and Other Monetary Assets Held  
Outside of the Continental United States  
(Report No. D-2009-003)

We are providing this report for information and use. We performed this audit in response to a request made by the Deputy Assistant Secretary of the Army (Financial Operations). We considered management comments on a draft of this report in preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Deputy Assistant Secretary of Army (Financial Operations) comments were partially responsive on Recommendation A.1.c. Therefore, we request additional comments on this recommendation by November 10, 2008. We considered all other comments responsive.

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. James Fleischman at (703) 601-5954 (DSN 329-5954) or Mr. Thomas Daquano at (703) 601-5934 (DSN 329-5934). The team members are listed inside the back cover.

*Patricia A. Marsh*  
Patricia A. Marsh, CPA  
Assistant Inspector General  
Defense Financial Auditing Service





# Results in Brief: Internal Controls Over Army General Fund Cash and Other Monetary Assets Held Outside of the Continental United States

## What We Did

Our overall audit objective was to determine whether internal controls for Army General Fund Cash and Other Monetary Assets (COMA) Held Outside of the Continental United States were effectively designed and operating to safeguard, account for, and report COMA.

## What We Found

Security plans and physical controls over COMA were adequate. Semiannual security reviews were performed, Statement of Accountability documents were determined to be accurate (except as noted in the findings), and observed cash counts agreed with cash balances reported on the Statement of Accountability. However, some Army and Defense Finance and Accounting Service (DFAS) internal controls over COMA held outside of the continental United States were not effective:

- The Deputy Assistant Secretary of the Army (Financial Operations) (DASA [FO]) was not able to provide a verifiable detailed listing of the universe of COMA reported on the Army General Fund balance sheet.
- Deputy Disbursing Officers in Afghanistan did not record disbursements and collections on a timely basis and the June 30, 2007 balance sheet COMA line was overstated by approximately \$114 million.
- The Army General Fund balance sheet misclassified some line items as COMA. Therefore, the Army General Fund Balance Sheet was overstated by more than \$206 million as of June 30, 2007.

- Army disbursing offices using the Deployable Disbursing System misclassified more than \$266 million in contingency cash as funds with agents or Limited Depository Accounts.

## What We Recommend

The DASA [FO] should:

- Coordinate with the DFAS Director of Information Technology, Systems Management, to develop capability within Deployable Disbursing System to identify and report by location the amounts for each category of COMA;
- Consolidate all Army disbursing station data into a centralized database or system;
- Facilitate the timely recording of Afghanistan disbursements by purchasing scanning equipment for use by disbursing station 5570 officials (or modify reporting procedures to allow Afghanistan deputy disbursing offices to record cash disbursements);
- Provide consistent guidance and procedures for reporting contingency cash, to allow DoD contractor-operated military banking facilities to overcome system limitations;
- Report a material control weakness for COMA in the Army's Annual Statement of Assurance and Annual Financial Report until these recommendations are implemented.

## Client Comments and Our Response

The DASA (FO) and DFAS, Indianapolis concurred with Recommendations A.1.a, A1.b, B, and G. Therefore no further action is needed. However, DASA (FO) was partially responsive to Recommendation A.1.c.

## Recommendations Table

<b>Client</b>	<b>Recommendations Requiring Comment</b>	<b>No Additional Comments Required</b>
Deputy Assistant Secretary for the Army (Financial Operations)	A.1.c.	A.1.a.-A.1.b., B, and G
Defense Finance and Accounting Service, Information Technology, Systems, Management, Director		A.1.a.-A.1.b.
Defense Finance and Accounting Service, Indianapolis, Disbursing Operations, Director		B

# Table of Contents

<b>Results in Brief</b>	i
<b>Introduction</b>	1
Objectives	1
Background	1
<b>Finding A. Universe of Cash and Other Monetary Assets</b>	5
Recommendation	8
<b>Finding B. Reporting of Disbursements and Collections</b>	11
Recommendation	12
<b>Finding C. Reporting of Non-Army Funds</b>	13
Corrective Action	14
<b>Finding D. Reporting of Cash and Other Monetary Assets</b>	15
Recommendation	17
<b>Finding E. Use of Cash for Official Representation Funds Payments</b>	19
Corrective Action	20
<b>Finding F. Review of Limited Depository Account Balances</b>	21
Corrective Action	23
<b>Finding G. Accuracy of Cash Categorization</b>	25
Recommendation	27
<b>Finding H. Intelligence Contingency Funds</b>	29
Corrective Action	30

# Table of Contents (Cont'd)

## Appendices

A. Scope and Methodology	31
B. Prior Coverage	35
C. Glossary	37
D. Total Balance Sheet Overstatement	39
E. Statement of Accountability	41
F. Official Representation Funds Memorandum	43
G. Electronic Funds Transfer Contract Payment Memorandum	45
H. Non-Cash Statement of Accountability Line Items	47
I. Army Disbursing Stations Visited	49
J. Guidance for International Treasury Services Usage	51
K. Reporting Entities and Computer Systems Used to Manage Cash and Other Monetary Assets	53
L. Interim Change to AR 381-141, Intelligence Contingency Funds	55

## Client Comments

Army	57
Defense Finance and Accounting Service Indianapolis	61

# Introduction

## Objectives

The objective of this audit was to determine whether internal controls for Army General Fund, Cash and Other Monetary Assets held outside of the continental United States were effectively designed and operating to safeguard, account for, and report Cash and Other Monetary Assets.

## Background

**Cash and Other Monetary Assets Definition.** The Cash and Other Monetary Assets (COMA) account represented a material line item\* on the September 30, 2007, DoD Agency-Wide Consolidated Balance Sheet. The Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) No.1, "Accounting for Selected Assets and Liabilities," March 30, 1993, defines cash as: (a) coins, paper currency and readily negotiable instruments, such as money orders, checks, and bank drafts on hand or in transit for deposit; (b) amounts on demand deposit with banks or other financial institutions; and (c) foreign currencies.

Cash is classified as either entity cash or nonentity cash, and these are reported separately on Federal financial statements. Entity cash is the amount of cash that the reporting entity holds and is authorized by law to spend. Nonentity cash is collected and held by the reporting entity on behalf of another Federal entity or the U.S. Government, and these funds are not available for use by the reporting entity. In some circumstances, the entity deposits cash in its accounts in a fiduciary capacity for the Department of Treasury (Treasury) or other entities. Nonentity cash should be reported separately from entity cash.

Restrictions are usually imposed on cash deposits by law, regulation, or agreement. Nonentity cash is always restricted cash. Entity cash may be restricted for specific purposes. Such cash may be in escrow or other special accounts. Financial reports should disclose the reasons for and nature of restrictions.

Office of Management and Budget Circular A-136, "Financial Reporting Requirements," June 2007, defines other monetary assets as gold, special drawing rights, and U.S. Reserves in the International Monetary Fund. Treasury primarily uses this category.

**Cash Balance.** DoD reported \$15 billion on its DoD Agency-Wide Consolidated Balance Sheet as of September 30, 2007. However, only \$2.6 billion was DoD cash. The remaining \$12.4 billion was Foreign Military Sales Trust Fund cash. The Army General Fund (AGF) represents \$2.2 billion, or 83.1 percent, of DoD

---

\*According to the American Institute of Certified Public Accountants, the auditor's consideration of materiality is a matter of professional judgment and is influenced by the auditor's perception of the needs of users of the financial statements. In addition, materiality judgments are made in light of surrounding circumstances and involve both quantitative and qualitative considerations.

Agency-Wide COMA. The \$2.2 billion in AGF COMA includes \$2.15 billion (98.4 percent) outside the continental United States (OCONUS) and \$33.6 million (1.6 percent) inside the continental United States. The Army was not able to provide the volume of cash it collected and disbursed during FY 2007.

**Cash Reporting to the U.S. Treasury.** Each month, disbursing officers and agencies report their accountability and transactions to the Treasury on the following standard forms (SF):

- SF 1219, Statement of Accountability (SOA), and
- SF 1220, Statement of Transactions.

The SOA summarizes collection and disbursement activity for the month. In addition, the SOA is used to determine the accountability of disbursing officers for funds held outside the Treasury (known as “cash on hand”). See Appendix E for an example of the SOA.

The Statement of Transactions shows a detailed account classification of the collections and disbursements processed in a disbursing officer’s accounts for the current accounting period.

**Cash Reporting on the Army General Fund Balance Sheet.** The Army accounting systems lack a single, standard transaction-driven general ledger. In addition, these systems are unable to meet all of the requirements for accrual accounting. Therefore, Defense Finance and Accounting Service (DFAS) Indianapolis prepares a journal voucher to record COMA on the AGF balance sheet. The journal voucher is supported by the Army’s consolidated SOA. Without the journal voucher, the Army’s consolidated SOA would not reconcile to the COMA reported on the AGF balance sheet.

**Army Management Structure.** The Army management structure is decentralized. Army COMA is managed by the U.S. Army Finance Command, the U.S. Army Corps of Engineers, and DFAS Indianapolis Disbursing Operations Directorate (DFAS Disbursing Operations). Army disbursing officers provide funds to deputy disbursing officers and paying agents or may authorize deputy disbursing officers to obtain funds.

A disbursing officer (DO) is a military member or civilian employee of a DoD component designated to make disbursements in accordance with laws and regulations governing the disbursement of public monies. All DO appointees must be U.S. citizens.

A disbursing office is an activity, or the organizational unit of an activity, whose principal function consists of the disbursement, collection, and reporting of public funds. Disbursing offices are assigned Disbursing Station Symbol Numbers (DSSNs). See Appendix I for the DSSNs we visited and Appendix K for the reporting entities and computer systems used to manage COMA reported on the AGF balance sheet.

**Army Disbursing Officer Cash.** Army DOs obtain cash by writing a Treasury check made out to themselves (or an agent) and presenting it to a bank. DoD refers to this process as “Exchange for Cash Check”. Cash is used to: establish change funds and custodian imprest funds, fund accommodation transactions, and pay for goods and services and classified and contingency missions.

## **Effective Controls Over Existence and Accountability**

We performed field work at Army disbursing stations. We observed conditions, verified existence, compared accountability documents, analyzed accountability documents, and interviewed staff to determine whether internal controls were designed and operating as intended.

We determined that the OCONUS Army disbursing stations we visited had effective controls over existence and accountability. The security plans and physical controls over COMA at disbursing offices we visited were adequate. Semiannual security reviews were performed, SOA documents were accurate (except for the conditions stated in the findings), and observed cash counts agreed with cash balances reported on the SOAs. However, we identified eight findings. (See Findings A through H.)



# **Finding A. Universe of Army Cash and Other Monetary Assets**

The Deputy Assistant Secretary of Army (Financial Operations) was not able to provide a verifiable detailed listing of the universe of Cash and Other Monetary Assets reported on the Army General Fund balance sheet. Specifically, U.S. Finance Command and DFAS, Indianapolis Disbursing Operations personnel were not able to provide detailed month-end data for each DSSN by: category of Cash and Other Monetary Assets, disbursing officer, deputy disbursing officer, and paying agents that report to the disbursing officer.

This occurred because the Deputy Assistant Secretary of the Army, (Financial Operations) had not established a centralized financial management system to provide this data. As a result, management:

- could not monitor the effectiveness of the internal controls by performing reviews, reconciliations and comparisons of data;
- could not provide supporting data and audit trails in a timely manner to confirm balances reported on the balance sheet;
- could not share information with outside auditors and organizations in an efficient, effective and timely manner, as required by Office of Management and Budget Circular A-123; and
- was unprepared to submit audited financial statements, as required by Office of Management and Budget Circular A-136.

## **Reporting COMA on the Balance Sheet**

As of June 30, 2007, the AGF reported COMA of \$2,215,207,435. Army DOs held \$2,186,514,250 of this (98.7 percent) at OCONUS disbursing stations. The management of Army DOs and disbursing stations is decentralized. U.S. Army Finance Command (FINCOM) manages 22 OCONUS disbursing offices in places such as Korea, Belgium, Afghanistan, and Iraq. In addition, DFAS Disbursing Operations uses deputy DOs to manage Army disbursing offices located in Afghanistan, Egypt, and Japan. Finally, the U.S. Army Corps of Engineers (USACE) manages a disbursing station in Tennessee. (See Appendix I for a list of Army disbursing offices we visited.)

DOs manage the 24 disbursing stations, and some DOs are responsible for more than one. DOs may have numerous deputy DOs and paying agents that obtain cash from the DOs to conduct Army business. The deputy DOs manage small disbursing and collections offices and report to the DO, whereas paying agents conduct business for the Army one mission at a time.

Deputy DOs complete a Daily Agent Accountability Summary, DD form 2665. The DOs complete a Daily Statement of Accountability, DD form 2657, and at month-end they transmit a monthly SOA to DFAS Indianapolis. DFAS Indianapolis combines all DO monthly SOAs and provides a consolidated Army SOA to Treasury. The categories of COMA reported on the SOA include: limited depository accounts, cash and foreign currency on hand, funds with agents, dishonored checks, and losses of funds. Other categories of responsibility reported on the SOA include disbursements, deposits, and exchange gains and losses.

DOs report the results of their operations using three separate reporting systems, depending upon the management organization. FINCOM uses the Deployable Disbursing System (DDS). DFAS Disbursing Operations uses STANFINS Redesign Subsystem 1 (SRD-1), a module within Standard Finance System (STANFINS). USACE uses Corps of Engineers Financial Management System. The values from the DO's month-end SF 1219 are input into STANFINS, which feeds the DFAS Indianapolis Headquarters Accounting and Reporting System. Departmental Accounting uses Headquarters Accounting and Reporting System as its source for the COMA amount on the AGF balance sheet.

Army management explained that the three reporting systems were developed to satisfy requirements to report accountability data to the U.S. Treasury at the DO level. The systems were not developed to provide visibility below the DO.

## Criteria

The Office of Management and Budget (OMB) provides guidance to Federal financial managers regarding internal controls, financial management systems, financial reporting, and audit requirements. Guidance relevant to this finding includes:

- OMB Circular A-123, "Management's Responsibility for Internal Control," December 21, 2004,
- OMB Circular A-127, "Financial Management Systems," July 23, 1993,
- OMB Circular A-136, "Financial Reporting Requirements," June 2007, and
- OMB Bulletin 07-04, "Audit Requirements for Federal Financial Statements," September 4, 2007.

**OMB Circular A-123.** This circular requires management to assess internal controls over financial reporting. Management ensures that information is communicated to relevant personnel at all levels within an organization and that the information is relevant, reliable, and timely. It is also crucial that an agency communicate with outside organizations as well, whether providing information or receiving it. Management monitors the effectiveness of the internal controls in the normal course of business through periodic reviews, reconciliations or comparisons of data; and directs the testing of data. Management's responsibilities for internal controls include having: 1) a clear, organized strategy with well-defined documentation processes that contain an audit trail, 2) verifiable results, and 3) specific document retention periods so that someone unfamiliar with the procedures can understand the assessment process.

**OMB Circular A-127.** This circular requires agency financial managers to develop, operate, evaluate, and report on financial management systems. The systems should provide timely, useful financial information and should allow for system monitoring to ensure the integrity of financial data. Financial management systems must be in place to process and record financial events effectively and efficiently, and to provide complete, timely, reliable and consistent information for decision makers and the public. Useful financial management information on Federal Government operations allows management to carry out its fiduciary responsibilities; deter fraud, waste, and abuse of Federal Government resources; and facilitate efficient and effective delivery of programs.

**OMB Circular A-136.** This circular requires the submission of audited financial statements to OMB by November 15 of each fiscal year.

**OMB Bulletin 07-04.** This bulletin establishes the components of executive departments and agencies required to prepare financial statements. One of the components listed for the Department of Defense is “Department of Army General Funds.”

## Universe of Cash

The Deputy Assistant Secretary of Army (Financial Operations) (DASA [FO]) was not able to provide a verifiable detailed listing of the universe of COMA, as required by both OMB Circular A-123 and OMB Circular A-127. A timeline of the data requested and received is as follows:

**Table 1. Timeline of Data Provided**

Date	Action	Number of DSSNs	Associated Anomalies
1/25/07	Data request for all disbursing stations	--	--
3/16/07	FINCOM data received	22	No amounts provided. No Deputy Disbursing Officers provided.
4/10/07	USACE data received	1	None
4/23/07	DFAS Disbursing Operations data received	1	No paying agents listed. Missing a closing disbursing station.
5/14/07	FINCOM data received	1	No paying agents listed. Missing 1 in-theater disbursing station.
7/6/07	FINCOM data received	11	9 disbursing stations not received.

On January 25, 2007, we asked DASA (FO) to provide the geographic location of all Army COMA being held outside of the United States. Specifically, we requested the name of the accountable individual, the amount of funds authorized to be held, and the actual amount of funds held. Also, we requested the number of transactions that had taken place during the first quarter of 2007.

On March 16, 2007, FINCOM officials provided a list of 22 Army disbursing stations by location. However, they did not report the amount of cash under the control of the DO by disbursing station, as requested.

On April 23, 2007, Disbursing Operations provided the disbursing officer, deputy disbursing officers, and total accountability for DSSN 5570 by the various categories of COMA and accountability. However, they did not provide the data for one disbursing station in the process of closing.

On May 14, 2007, FINCOM officials performed a data call and provided the Asian theater data. Although we had originally requested the data on January 25, 2007, it took the organization more than 3 months to provide incomplete and untimely information. Additionally, the auditors had already planned and received theater clearance for a site visit to Korea that was scheduled to begin June 3, 2007.

By July 6, 2007, FINCOM provided comparable data for 11 disbursing offices located in Europe and Southwest Asia. However, auditors had already planned and received theater clearance for a site visit to Europe that was to begin the next day, July 7, 2007. FINCOM provided no data for nine disbursing stations.

This occurred because DASA (FO) did not have a centralized financial management system to provide this data. Instead, Army managers obtained incomplete information through a series of data calls to DOs.

## **Management Monitoring**

Army management was not able to provide supporting data with audit trails to verify the balances reported on the balance sheet in a timely manner. Because data is not readily available, Army management may not be able to monitor the effectiveness of the internal controls in the normal course of business through periodic reviews, reconciliations or comparisons of data, and data testing. Financial management systems must be in place to process and record financial events effectively and efficiently, and to provide complete, timely, reliable and consistent information. A useful financial management information system allows management to carry out its fiduciary responsibilities; deter fraud, waste, and abuse of Federal Government resources; and facilitate efficient and effective delivery of programs. Army management cannot communicate information to outside organizations, such as external auditors, to use for statistical analysis and sampling, in an efficient, effective, and timely manner as required by OMB Circular A-123. As a result, future audits may be difficult and costly to perform, and Army management may remain unprepared to submit audited financial statements by November 15 each year, as required by OMB Circular A-136.

## **Coordination with Management**

We conducted numerous meetings with the DASA (FO), DFAS, and FINCOM management to inform them of the issues discussed above. We also met to obtain an understanding of the technical difficulties associated with achieving a solution to the problems we cited in Finding A. Army and DFAS staff requested that we address our recommendation to the Defense Finance and Accounting Service, Director, Information Technology, Systems Management Directorate.

## **Recommendation, Client Comments, and Our Response**

**A.1. We recommend that the Deputy Assistant Secretary of Army (Financial Operations):**

**a. Coordinate with the Defense Finance and Accounting Service, Information Technology, Systems Management, Director to develop the capability within Deployable Disbursing System to identify all disbursing officers, deputy disbursing officers, and paying agents that report to the disbursing officer by location, and the amounts for each category of Cash and Other Monetary Assets as captured on the statements of accountability.**

### ***Client Comments***

The Deputy Assistant Secretary of the Army (Financial Operations) and DFAS Indianapolis concurred. A system change request to centrally gather and warehouse

Deployable Disbursing System data from each disbursing office level database has been approved. Implementation is scheduled for July 2009.

### ***Our Response***

We consider the management comments to be responsive.

**b. Consolidate data reported by all Army disbursing stations into a centralized database or system. The centralized system should be able to report all disbursing officers, deputy disbursing officers, and paying agents that report to the disbursing officer by location and amount for each category of Cash and Other Monetary Assets as captured on the statements of accountability.**

### ***Client Comments***

The Deputy Assistant Secretary of the Army (Financial Operations) and DFAS Indianapolis concurred. DASA (FO) and DFAS will work together to centralize all the DDS databases in one location. However, DFAS stated the process could be somewhat labor intensive. Implementation is scheduled for July 2009.

### ***Our Response***

We consider the management comments to be responsive.

**c. Report a material weakness for Cash and Other Monetary Assets in the Army Annual Statement of Assurance and Annual Financial Report until all the recommendations in this report have been implemented.**

### ***Client Comments***

DASA (FO) concurred. The FY 08 Annual Statement of Assurance reports Fund Balance with Treasury as a material weakness. Open recommendations will be reported and tracked in the Army's Financial Improvement Plan and the Department's Financial Improvement Audit Readiness Plan.

### ***Our Response***

We consider the management comments to be partially responsive. We recommend that the DASA (FO) report a material weakness for COMA, not as a Fund Balance with Treasury material weakness. We request that the DASA (Financial Operations) reconsider their position.



## **Finding B. Reporting of Disbursements and Collections**

DFAS Disbursing Operations (DSSN 5570) did not record disbursements and collections made by deputy disbursing officers in Afghanistan on a timely basis. According to DFAS officials, their Disbursing Operations did not record the disbursements and collections because deputy disbursing officers in Afghanistan lacked the electronic equipment needed to post these amounts. Instead, disbursements were mailed, processed, and recorded weeks after they took place. As a result, the June 30, 2007, Army General Fund balance sheet Cash and Other Monetary Assets line was overstated by approximately \$114 million.

### **DFAS OCONUS Disbursing Sites (DSSN 5570)**

As of June 30, 2007, DSSN 5570 was accountable for more than \$287 million in COMA, representing approximately 13 percent of total Army accountability. DSSN 5570 has OCONUS deputy DOs in Afghanistan, Egypt, Germany, Honduras, and Japan. The locations in Afghanistan include: Bagram, Camp Vance, Jalalabad, Kabul, Kandahar, Task Force Phoenix, Salerno, and Sharana.

### **Criteria**

DoD Financial Management Regulation (DoD FMR), volume 6b, chapter 2, “General Instructions for the Financial Statements,” January 2006, states that “entity management is responsible for ensuring that the data originating outside of the official accounting system is provided to the accounting organization in a timely manner, that it is complete, and that there are adequate internal controls and audit trails to ensure the data is accurate.”

DoD FMR, volume 5, chapter 19, “Disbursing Officer Accountability Reports,” April 2007, states that line 6.5 includes the amount of funds in the hands of deputies, cashiers, imprest fund cashiers, collection agents, paying agents, and change fund custodians at locations other than the main disbursing office. DoD FMR, volume 6b, chapter 4, “Balance Sheet,” January 2006, states that disbursing officer cash reported on the SF 1219, “Statement of Accountability,” should be reported on the COMA line of an entity’s balance sheet.

### **Reporting Deputy Disbursing Officer COMA**

DFAS Disbursing Operations did not record disbursements and collections made by deputy disbursing officers in Afghanistan on a timely basis. Deputy DOs prepare a DD 2665, “Daily Agent Accountability Summary,” which summarizes transactions for each business day. Normally, these records are used to record disbursements and collections in the SRD-1 system. However, because personnel in Afghanistan lacked scanning equipment to update SRD-1, disbursements and collections made by deputy DOs in Afghanistan were not recorded in SRD-1. DFAS Disbursing Operations personnel stated that the deputies in Afghanistan lacked scanning equipment because of budget issues. This inability to scan caused significant reporting delays.

DoD IG Draft Report for Project No. D2006FL-028, “Internal Controls over Out-Of-Country Payments,” February 11, 2008, stated that the Army and DFAS addressed the documentation problem in Iraq and Kuwait. Specifically, Army and DFAS purchased 40 scanners to be distributed to the Army contingency disbursing stations in Iraq and

Kuwait. These disbursing stations will scan each day's disbursement documentation and submit the data to DFAS Rome to be reviewed for document quality and completeness.

## **Conclusion**

The lack of scanning equipment in Afghanistan resulted in an overstatement of the COMA line on the June 30, 2007, AGF balance sheet of \$113,875,757. The new scanning equipment will help eliminate timing differences and improve the reliability of the financial statements. (See Appendix D for a complete list of overstatements to COMA on the June 30, 2007, balance sheet)

Army Management has expressed concern that purchasing and deploying scanning equipment to Afghanistan, in itself, would not resolve timing differences and improve the reliability of the financial statements. Management stated that there may not be sufficient bandwidth and other infrastructure to operate the scanning equipment. We did not visit Afghanistan or conduct interviews. Therefore, we have not been able to investigate management's concerns.

Management has proposed to modify reporting procedures for Afghanistan Army deputy DOs and DFAS Disbursing Operations to record cash disbursement in-transit vouchers as deferred vouchers on line 7.1 of the SOA. Under this scenario, the deferred-vouchers category would include vouchers in transit between the Afghanistan theater and DFAS Disbursing Operations, and vouchers in transit from DFAS Disbursing Operations to Rome for input into vendor pay. This amount should be reported in the Army's financial statements under the appropriate non-COMA asset line. Although we strongly favor using scanning equipment to transmit documents and eliminate timing differences, we accept management's alternative solution if there is not sufficient bandwidth and other infrastructure to operate the scanning equipment.

## **Recommendation, Client Comments, and Our Response**

**B. We recommend that the Deputy Assistant Secretary of Army (Financial Operations) and Director, Defense Finance and Accounting Service-Indianapolis, Director Disbursing Operations:**

**Facilitate the timely recording of Afghanistan disbursements by purchasing scanning equipment for use by disbursing station 5570 officials or, until this is feasible, modify reporting procedures for Afghanistan Army Deputy Disbursing Officers and Disbursing Operations to record cash disbursements.**

### ***Client Comments***

The DASA (Financial Operations) and DFAS Indianapolis concurred. DFAS has revised reporting of cash disbursement in-transit vouchers as deferred vouchers on Line 7.1 of the SOA. Therefore, they will not be included as COMA on the financial statements. Additionally, DFAS has purchased hardware so that they can image vouchers in theater.

### ***Our Response***

We consider the DASA (FO) and Director, DFAS Indianapolis comments to be responsive.

## **Finding C. Reporting of Non-Army Funds**

DFAS Indianapolis accounting personnel erroneously included Cash and Other Monetary Assets held by a non-Army Defense Organization in the Army General Fund balance sheet Cash and Other Monetary Assets line. This occurred because DFAS, Indianapolis accounting personnel did not have clear, complete standard operating procedures to compile the Army General Fund balance sheet Cash and Other Monetary Assets line. As a result, the Army General Fund balance sheet Cash and Other Monetary Assets line was overstated by approximately \$994,000 as of June 30, 2007.

### **Balance Sheet Compilation**

DFAS Indianapolis accounting personnel prepare the AGF quarterly financial statements and prepare a journal voucher to record disbursing officer COMA reported on the SOA into the AGF General Ledger. DFAS Indianapolis issues standard operating procedures (SOPs) to provide instructions on how to prepare the journal voucher. Specifically, SOP 1100, "Statement of Accountability," May 2005, provided procedures on how to prepare a journal voucher to record disbursing officer COMA reported on the SOA into the AGF General Ledger. This SOP did not specifically include or exclude non-Army DoD organizations, but DFAS Indianapolis erroneously included non-Army COMA on the AGF Balance Sheet.

### **Criteria**

According to OMB Circular A-136, "Financial Reporting Requirements," June 2007, the balance sheet presents amounts of future economic benefits owned or managed by the reporting entity (assets), amounts owed by the entity (liabilities), and amounts which compose the difference (net position). The DoD FMR, volume 6b, chapter 2, "General Instructions for the Financial Statements," January 2006, states that "entity management is responsible for ensuring that the data originating outside of the official accounting system is provided to the accounting organization in a timely manner, that it is complete, and that there are adequate internal controls and audit trails to ensure the data is accurate."

DoD FMR, volume 6A, chapter 2, "Financial Reports, Roles, and Responsibilities," March 2002, requires DFAS to review financial reports to assess the accuracy of reported financial information and to take corrective action to improve the timeliness and quality of financial reports. Also, the DoD FMR requires DFAS to establish procedures to ensure that data provided by the customer is recorded in an accurate and timely manner into its finance and accounting systems.

### **Compilation of Data**

DFAS, Indianapolis accounting personnel erroneously included COMA held by a non-Army Defense Organization in the AGF balance sheet COMA line because they did not have clear, complete procedures in place to for compiling input to the financial statements. Specifically, DFAS Indianapolis SOP 1100, "Statement of Accountability," May 2005, did not contain any instructions for personnel to exclude non-Army defense organizations during the balance sheet compilation process. DFAS Indianapolis personnel determined that the SOP did not instruct them to exclude non-Army disbursing stations. As a result, the AGF June 30, 2007, balance sheet was overstated by \$994,314.78. Having clear, complete guidance will help ensure that the financial

statements are accurate. (See Appendix D for a complete list of overstatements to COMA on the June 30, 2007, balance sheet)

### **Corrective Action**

As a result of our audit, DFAS Indianapolis took immediate action. In December 2007, it revised SOP 1100, "Statement of Accountability," May 23, 2005, to ensure that non-Army Defense Organization COMA is not reported as AGF COMA. The revised SOP requires the non-Army Defense Organization's SOA data to be excluded from AGF COMA. Therefore, a recommendation is not necessary.

## **Finding D. Reporting of Cash and Other Monetary Assets**

Statement of Accountability line items that were not Cash and Other Monetary Assets were incorrectly posted to the Army General Fund Balance Sheet as Cash and Other Monetary Assets. Specifically, the balance sheet included such items as Receivables, Other Accountability, and Loss of Funds as Cash and Other Monetary Assets. This occurred because the DoD Financial Management Regulation did not define which items should be categorized as Cash and Other Monetary Assets. As a result, the Army General Fund balance sheet was overstated by more than \$206 million, as of June 30, 2007.

### **Journal Voucher Process**

DFAS accountants use a journal voucher to post to the COMA line at the close of each fiscal quarter. The journal voucher is supported by SOAs submitted by disbursing officers. The “Total Disbursing Officer Accountability” line of the SOA includes such items as “Cash on Deposit in Designated Depository,” “Losses of Funds,” and “Receivables-Dishonored Checks.” See Appendix H for a list of the SOA line items and their definitions.

### **Definition of Cash**

Statement of Federal Financial Accounting Standard No.1 states that cash consists of: (a) coins, paper currency, and readily negotiable instruments, such as money orders, checks, and bank drafts on hand or in transit for deposit; (b) amounts on demand deposit with banks or other financial institutions; and (c) foreign currencies, which for accounting purposes should be translated into U.S. dollars at the exchange rate on the financial statement date.

OMB Circular A-136, “Financial Reporting Requirements,” June 2007, uses the FASAB definition for cash. OMB Circular A-136 defines other monetary assets as gold, special drawing rights, and U.S. Reserves in the International Monetary Fund. OMB Circular A-136 also states, “the components of cash and other monetary assets shall be disclosed in the notes to the financial statement.”

The DoD FMR, volume 6b, chapter 4, “Balance Sheet,” January 2006, uses the FASAB and OMB definition for cash and the OMB definition for COMA. Also, volume 6b, chapter 4, states that disbursing officer cash reported on the SF 1219, SOA is also reported on the COMA line of an entity’s balance sheet. DoD FMR, volume 5, chapter 19, “Disbursing Officer Accountability Reports,” August 1999, provides the SOA line items and their definitions.

## **Reporting COMA on the Balance Sheet**

The AGF balance sheet included items that were not COMA SOA line items in the COMA line. Specifically, the following non-COMA SOA line items were included in the COMA account balance on the AGF consolidated balance sheet:

- Line 6.9 – Other Cash Items
- Line 7.3 – Loss of Funds
- Line 7.4 – Receivables-Dishonored
- Line 9.3 – Loss of Funds
- Line 9.4 – Other Accountability

We determined that these five SOA line items do not meet the definition of “cash” or “other monetary assets.” We based our determination on the definitions provided in SFFAS No.1 and DoD FMR, volume 5, chapter 19, “Disbursing Officer Accountability Reports,” August 1999. For example, the DoD FMR states that line 7.3, “Loss of Funds,” and 9.3, “Loss of Funds-Predecessor,” represent physical losses of cash. These funds are not in the possession of the DO and should not be recorded on the balance sheet. In addition, the DoD FMR states that line 7.4, “Receivables-Dishonored Checks” is used to record any dishonored checks that are to be retained in DO accountability. This money is not on hand and should not be included in COMA. See Appendix E for an example of the SOA.

## **Criteria for Reporting COMA on the Balance Sheet**

DoD FMR, volume 6b, chapter 4, does not define which SOA line items should be categorized as COMA. The DoD FMR, volume 6b, chapter 4, states that disbursing officer cash reported on the SF 1219, “Statement of Accountability,” is also reported on the COMA line of an entity’s balance sheet. However, the SOA does not have a line item titled “disbursing officer’s cash.” Also, volume 6b, chapter 4 explains that cash reported on the DO SOA should be reported on the balance sheet cash line. However, the DoD FMR does not define which of the SOA line items should be reported as cash on the balance sheet.

DoD FMR, volume 5, chapter 19, “Disbursing Officer Accountability Reports,” August 1999, provides the SOA line items and their definitions. See Appendix H for a list of the SOA line items and their definitions from the DoD FMR, volume 5, chapter 19.

As of June 30, 2007, the AGF balance sheet overstated COMA by more than \$206 million. Table 2 shows the Army SOA line items and their amounts that do not meet the SFFAS No. 1 definition of cash, thereby overstating the AGF balance sheet COMA line. (See Appendix D for the complete list of overstatements to COMA on the June 30, 2007, balance sheet.)

**Table 2. Non-COMA SOA Line Calculation**

<b>Line</b>	<b>Line Title</b>	<b>Amount Reported</b>
6.9	Other Cash Items	\$204,056,300.00
7.3	Loss of Funds	61,318.74
7.4	Receivables- Dishonored Checks	134,757.01
9.3	Loss of Funds- Predecessor	1,820,637.42
9.4	Other Accountability	32,282.47
<b>Total</b>		<b>\$206,105,295.64</b>

## **Recommendation**

This report is one in a series leading up to an agency-level review of DoD Cash and Other Monetary Assets reporting. Assets that are incorrectly classified as Cash and Other Monetary Assets not only affect the reporting component’s balance sheet, but also the DoD balance sheet. We will make recommendations on this finding in the report, “Internal Controls Over DoD Cash and Other Monetary Assets” (Project No. D2007-D000FP-0174.000).

## **Client Comments on the Finding and Our Response**

Although not required to comment, the Deputy Assistant Secretary of the Army (Financial Operations) provided comments on the finding. For the full text of the DASA (FO) comments, see the Client Comments section of the report.

### ***Client Comments***

The DASA (FO) did not agree with the amount of overstatement. Specifically, the DASA (FO) believes that line 6.9, “Other Cash Items,” is part of the COMA calculation. The DASA (FO) believes that the Balance Sheet was overstated by only \$2 million, not \$206 million.

### ***Our Response***

The DASA (FO) did not disagree that lines 7.3, 7.4, 9.3 and 9.4 should not be categorized as Cash and Other Monetary Assets. We believe that line 6.9 also should not be classified as Cash and Other Monetary Assets. Issues related to Statement of Accountability line items categorized as Cash and Other Monetary Assets are being addressed to the OUSD(C)/CFO in “Internal Controls Over DoD Cash and Other Monetary Assets” (Project No. D2007-D000FP-0174.000).



## **Finding E. Use of Cash for Official Representation Funds Payments**

The Army used almost \$600,000 in cash to make Official Representation Funds payments for the 1-year period ending June 30, 2007. This occurred because the DoD Financial Management Regulation does not mandate the use of the Government Purchase Card to make Official Representation Fund payments. As a result, Army disbursing officers and paying agents held additional cash to support payments for Official Representation Funds. The increased cash raised the potential for losses and other risks associated with holding cash.

### **Purpose of ORF**

DoD Directive 7250.13, "Official Representation Funds" (ORF), January 12, 2005, states that the purpose of ORF is "to host official receptions, dinners, and similar events, and to otherwise extend official courtesies to guests of the United States and the Department of Defense for the purpose of maintaining the standing and prestige of the United States and the Department of Defense." These events are often dinners and other events to build relations with local officials. Often, ORF cash payments are made to vendors who also accept the Government Purchase Card, such as the base commissary. We did not review the appropriateness of ORF payments in this audit—our focus was on minimizing the use of cash.

### **Criteria**

The Treasury Financial Manual, volume 1, part 4, chapter 4500, "Government Purchase Cards," states, "Small purchases of up to \$25,000 should be made using the Government Purchase Card." Other small purchase methods (imprest funds, third party drafts, [Standard Form] SF-44 forms, and purchase orders) may only be used in lieu of the Government Purchase Card when it is more cost-effective, practicable, or required by existing statutes."

The Federal Acquisition Regulation, subpart 13.2, "Actions at or Below the Micro-Purchase Threshold," states, "The Government-wide commercial purchase card shall be the preferred method to purchase and to pay for micro-purchases." The Federal Acquisition Regulation goes on to define micro-purchases as an acquisition of supplies or services, the aggregate amount of which does not exceed the micro-purchase threshold.

### **Use of Cash for ORF Payments**

For the 1-year period ending June 30, 2007, the Army used \$595,878 cash instead of the Government Purchase Card to make ORF payments at the locations we visited. The \$595,878 paid in cash was for 558 ORF payments made at two locations. During our review of ORF payments we did not determine the appropriateness of the ORF payments, but focused on the method of payment. The Treasury Financial Manual requires that small purchases (not necessarily ORF) of up to \$25,000 be made with the Government Purchase Card.

The Army's use of cash to make ORF payments increases the amount of cash held on hand by disbursing personnel. DOs often determine the amount of cash to keep on hand based on the historic amounts of cash held. Therefore, disbursing personnel who support ORF cash payments are required to hold extra cash on hand to meet these needs.

## **DoD FMR Guidance**

The DoD FMR does not require the use of the Government Purchase Card to make ORF payments. While criteria in the Treasury Financial Manual require the use of Government Purchase Cards to make ORF payments, the DoD FMR lacks similar guidance. Disbursing personnel and senior leaders may be unaware of the requirement to use the Government Purchase Card because the DoD FMR does not include this guidance.

## **Conclusion**

The Army's use of cash instead of the Government Purchase Card reduces the visibility of purchases made, increases the potential for losses, and may increase its costs related to holding cash. Although cash must be kept on hand at disbursing offices to make ORF payments, there may be significant costs related to obtaining, storing, protecting, disbursing, and accounting for cash. These costs may also take the form of time spent by disbursing office personnel obtaining and securing the cash. The Government Purchase Card helps to ensure the accountability for and transparency of ORF payments. Cash-holders risk a loss of funds every time cash is used. This can be avoided by using the Government Purchase Card, which does not require the holding of cash.

## **Corrective Action**

As a result of our audit, the Deputy Chief Financial Officer of the Office of the Undersecretary of Defense, Comptroller has taken appropriate corrective action. Specifically, on December 18, 2007, the Deputy Chief Financial Officer of the Office of the Undersecretary of Defense, Comptroller issued the memorandum, "Preferred Payment Method for Official Representation Funds," which states that:

- the Government Purchase Card is the preferred method of payment when the infrastructure supports Government Purchase Card usage; and
- a separate Government Purchase Card account should be established to ensure accountability and transparency of ORF expenditures.

Therefore, further recommendations are not necessary. (See Appendix F for the memorandum in its entirety.)

## F. Review of Limited Depository Account Balances

The Army cannot determine whether Treasury’s International Treasury Service is being used effectively to keep funds held in Limited Depository Accounts at the minimum amount needed to support Army operations. This is because the DoD Comptroller has not established objective guidelines to evaluate funds needed. As a result, the U.S. Army may be holding \$172 million more than is necessary in Limited Depository Accounts.

### Background

An option available to DOs for holding money outside of the Treasury is to keep it in Treasury-approved Limited Depository Accounts (LDA). An LDA is a checking account in a foreign currency maintained in a limited depository by a disbursing officer. As of June 30, 2007, the Army reported \$2.2 billion in total COMA, with \$1.04 billion reportedly held in LDAs. Army FINCOM, DFAS Disbursing Operations, and USACE manage Army’s LDAs. The following chart provides a breakout of LDAs among the different account holders:

**Table 3. Army Limited Depository Accounts as of June 30, 2007**

Organization	Number of LDAs	Balance of LDAs
Army FINCOM	11	\$187,092,237.17
DFAS Disbursing Operations	8	61,498,142.73
USACE Millington	4	792,329,636.51
<b>Total</b>	<b>23</b>	<b>\$1,040,920,016.41</b>

USACE manages four LDA accounts with a total balance of \$792 million. Of that total \$771 million (97 percent) were needed to meet requirements of the Status of Forces Agreement with the Republic of Korea and may not be closed. Army FINCOM manages 11 LDA accounts with a total balance of \$187 million. Of that total, \$98 million (52 percent) were in restricted accounts and could not be closed. Because of the lack of measurement criteria, we could not determine the need for the remaining \$172 million of the Army’s total LDAs.

International Treasury Services (ITS) is a Treasury-operated comprehensive payment and collection system used for processing electronic and check payments for benefit recipients, vendors, foreign payroll, and miscellaneous payment receipts. ITS transfers funds directly from the Treasury to a payee without using an LDA. There are a wide variety of benefits to using ITS instead of an LDA: reducing the amount of idle cash held in LDA accounts, avoiding banking costs, and benefiting from competitive exchange rates. Some Army LDA account holders already use ITS, and Air Force LDA holders use it extensively. Air Force ITS users have noticed benefits such as reduced banking fees and avoiding lost interest (LDAs do not pay interest).

### Criteria

The DoD FMR, volume 5, chapter 14, “Limited Depository Checking Accounts” states:

DOs shall review the LDA on a continuing basis to ensure that: account balances are maintained at the minimum amount necessary to meet immediate

disbursement needs (checks issued and in process) and are commensurate with the activity in the LDA, balances in excess of immediate needs are promptly withdrawn and deposited with the Treasury Department, and terms negotiated with the depository are favorable to the Government, including interest on the account at the highest possible rate.

## **Review of Limited Depository Account Balances**

The Army cannot determine whether Treasury's ITS is being used effectively to keep funds held in LDAs at the minimum needed to support Army operations. The Army LDA holders we visited had a variety of approaches for reducing their LDAs and were not consistent in their use of ITS. However, because of a lack of guidance in reviewing LDAs, we were unable to determine whether the Army LDA holders effectively minimized their LDA balances. Specifically, the DoD FMR does not describe how the DOs are to determine the minimum amount of cash necessary for operations.

Despite this limitation, we evaluated the process for reviewing LDAs used by the three main LDA holders we visited. Individual LDA holders had made significant steps to reduce their LDA balances. For example, during the course of our audit FINCOM determined that it could eliminate an LDA based in Kuwait that had a balance of \$47.3 million, as of June 30, 2007. In addition, FINCOM is trying to increase the use of electronic fund transfers to make contract payments in Iraq (See Appendix G). FINCOM determined that ITS was not practical elsewhere because of limitations with DDS and ITS. Although FINCOM has taken positive steps to reduce the funds held in LDAs, during our review there was no clear and consistent way to review LDAs and determine whether ITS was being fully used.

DFAS Disbursing Operations has determined that the majority of LDAs for which it is responsible cannot be replaced with ITS because of problems processing ITS transactions in Afghanistan caused by problems processing the Afghani currency. Nonetheless, during our audit work, DFAS Disbursing Operations determined that it may be able to use ITS to reduce its LDAs in Europe and Japan, which have a combined balance of \$1.4 million.

USACE determined that the conversion to ITS would not result in time or cost savings. As previously stated, \$771 million of the LDA balance held by the USACE is based on Status of Forces Agreements and cannot be eliminated or significantly reduced by using ITS.

## **Limited Depository Account Review Guidance**

The DoD Comptroller has not established objective guidelines to evaluate funds needed. Although the DoD FMR requires that DOs review their LDAs, the DoD FMR does not describe how the DOs are to determine the minimum amount necessary. In addition, the DoD FMR does not require the use of ITS. With the exception of an LDA balance that is required to meet the Status of Forces Agreement with the Republic of Korea, the DoD lacks guidance requiring the elimination or reduction of LDA balances, by the increased use of ITS. Without guidance requiring the use of ITS, LDA holders do not have sufficient incentive to optimize their cash management.

## **Benefits of Consistent Limited Depository Account Review**

The U.S. Army may be holding \$172 million more than is necessary in LDAs. Because of a lack of consistency in the review of LDAs, individual DOs are unable to make

informed decisions on the merits of using ITS to reduce LDAs—leading to increased costs from holding LDAs. Guidance requiring the use of ITS, with certain exceptions, will encourage DoD to reduce its LDA amounts and has the potential for significant cost savings.

## **Corrective Action**

As a result of our audit, the Deputy Chief Financial Officer of the Office of the Undersecretary of Defense, Comptroller has taken appropriate corrective action. Specifically, on February 12, 2008, the Deputy Chief Financial Officer of the Office of the Undersecretary of Defense, Comptroller issued the memorandum, “Foreign Disbursing Operations-International Treasury Services Usage,” which states, “disbursing officers are encouraged to use ITS.gov where the infrastructure will support its usage.” Therefore, further recommendations are not necessary. See Appendix J for the memorandum in its entirety.

## **Client Comments on the Finding and Our Response**

Although not required to comment, the Deputy Assistant Secretary of the Army (Financial Operations) provided comments on the finding. For the full text of the DASA (FO) Comments, see the Client Comments section of the report.

### ***Client Comments***

The DASA (FO) stated that they believed that LDA balances that could be reduced or converted to ITS should not include LDAs representing burden-sharing funds provided by Japan and Korea. Further, the DASA (FO) explained that although some reductions in LDAs are feasible, elimination of many of the LDAs would require significant reprogramming of disbursing systems, as well as improvement to banking systems in host countries.

### ***Our Response***

We worked with the DASA (FO) to reduce LDA balances identified that could be converted to ITS or otherwise reduced from \$270 million to \$172 million, so that they do not include burden-sharing funds provided by Japan and Korea.



## **Finding G. Accuracy of Cash Categorization**

U.S. Army Finance Command disbursing offices using the Deployable Disbursing System misclassified more than \$266 million in Cash and Other Monetary Assets on the Army's balance sheet as of June 30, 2007. Specifically, one DSSN misclassified \$31,025,240.07 of Contingency Cash (line 6.4) as Funds with Agents (line 6.5), and another DSSN misclassified \$235,092,928.00 of Contingency Cash (line 6.4) as a Limited Depository Account (Line 6.1). This occurred because the DoD and Army disbursing and accounting systems do not permit information to be posted to Contingency Cash (line 6.4). As a result, managers do not have accurate data for identifying and managing risk over Cash and Other Monetary Assets, and auditors are prevented from: obtaining accurate data, selecting audit samples, selecting audit sites, and planning the nature and timing of audit tests of Cash and Other Monetary Assets.

### **Reporting Process**

The Army does not use a transaction-driven general ledger. Instead, it reports COMA on the balance sheet by using the consolidated SOA. FINCOM uses the DDS and SRD-1 systems to report their accountability. DDS is a local area network-based disbursing system that integrates other systems within the finance office. DDS produces the SF 1219, SOA, as well as the DD 2657, "Daily Statement of Accountability Summary." Data from these systems are consolidated into the STANFINS system and then used to support the consolidated SOA, which is manually posted by journal voucher to the AGF.

DOs must report their contingency cash, which is held in a custody/contingency account at contractor-operated military banking facility (MBF). The DoD FMR, volume 5, chapter 12, defines a contingency cash account as an arrangement approved by Treasury where safety stocks of U.S. currency on the books of overseas military central funding officers are held in the Government's contractor-operated MBF. DOs report contingency cash on line 6.4 of the SOA. This serves as the MBF vault cash, and there is a daily settlement between the MBF operator and the central funding officer.

The DoD FMR defines an MBF as a banking office located on a DoD installation and operated by a financial institution that the Treasury specifically has authorized, to be a "Depository and Financial Agent of the U.S. Government," that provides certain banking services. MBFs have approximately 100 branch offices and 300 automated teller machines (ATMs) in the following countries: Germany, Netherlands, United Kingdom, Iceland, Japan, South Korea, Diego Garcia, Cuba (Guantanamo Bay), Honduras, and Kwajalein. The Overseas Military Banking Program contract is maintained by DFAS. Contract MDA210-02-D-0003 establishes the Overseas Military Banking Program requirements and the support provided by the DoD.

### **Criteria**

According to OMB Circular A-123, "Management's Responsibility for Internal Control," December 21, 2004, management is responsible for establishing and maintaining internal controls to achieve the effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. OMB Bulletin 07-04, "Audit Requirements for Federal Financial Statements," September 4, 2007, establishes the components of executive departments and agencies required to prepare financial statements. One of the components listed for the Department of Defense is "Department of Army General Funds." Treasury Financial Manual, volume I, part 2, chapter 3100, "Instructions for Disbursing Officers' Reports," paragraph 3130.20, says that the SF

1219, SOA, is used to determine the accountability of disbursing officers for funds held outside the Treasury (cash on hand). According to this guidance, the Army should submit a file of FMS Form 1219 data directly to FMS.

According to DoD FMR volume 5, chapter 12, “Foreign Disbursing Operations,” section 1201, “Monetary Regulations,” paragraph 120103, the balance held in the custody account is reported on line 6.4 of both the DD Form 2657 and the SF 1219. DoD FMR, volume 5, chapter 19, “Disbursing Officer Accountability Reports,” section 190205.F 1902, “Preparation of DD Form 2657,” states that the amount reported on line 6.4 includes cash held under custody account agreements in overseas contract MBFs or Treasury approved cash held for contingency requirements.

## **Cash Categorization**

FINCOM disbursing offices using DDS misclassified more than \$266 million COMA on the Army’s balance sheet, as of June 30, 2007. Specifically, one DSSN misclassified \$31,025,240.07 of Contingency Cash (line 6.4) as Funds with Agents (line 6.5), and another DSSN misclassified \$235,092,928 of Contingency Cash (line 6.4) as Limited Depository Account (Line 6.1). The DoD FMR requires the disbursing offices to report contingency cash on Line 6.4 of the SOA.

## **Contingency Cash Reporting**

DDS and other related Army and DoD disbursing and accounting systems do not permit information to be posted to Contingency Cash (line 6.4) of the SOA. The DDS program manager acknowledged that DDS has limitations that do not allow DDS users to input data on line 6.4 on the SOA. Also, the program manager stated that a software correction to DDS alone would not correct the problem. The program manager informed us that the problem affects other systems and other users as well, including: DFAS Rome, STANFINS, and the DFAS functions that use Headquarters Accounting and Reporting System (DFAS Indianapolis Disbursing Operations Directorate and the DFAS Indianapolis Audited Financial Statement Directorate). The program manager explained that DFAS Rome manually inputs all SOA data into STANFINS, but STANFINS is unable to populate data on line 6.4 of the SOA. The Departmental Accounting personnel who prepare the AGF financial statements explained that all SOA line 6 items are consolidated as COMA on the financial statements.

## **Auditability**

Managers do not have accurate data for identifying and managing risk over COMA, and there is more than a remote likelihood that a misstatement of the financial statements, or other significant financial reports, will not be prevented nor detected. OMB requires Federal managers to be responsible for establishing and maintaining internal controls to achieve effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations.

Finally, auditors cannot effectively assess whether COMA is being reported accurately. Specifically, auditors are prevented from obtaining accurate data, selecting audit samples, selecting audit sites, and planning both the nature and timing of audit tests to verify management assertions over COMA.

## **Recommendation, Client Comments, and Our Response**

**G. We recommend that the Deputy Assistant Secretary of the Army (Financial Operations):**

**Provide consistent guidance and procedures for reporting Contingency Cash for DoD contractor-operated military banking facilities to overcome systems limitations.**

### ***Client Comments***

The Deputy Assistant Secretary of the Army (Financial Operations) concurred. The Army central funding offices in Europe and Korea have been directed to record contingency cash as funds maintained in a local depository account.

### ***Our Response***

We consider the DASA (FO) comments to be responsive.



## **Finding H. Intelligence Contingency Funds**

Disbursing officers at a finance command we visited were unable to verify that disbursements involving Intelligence Contingency Funds were supported by receipts. This occurred because the disbursing officers were unable to obtain the results of audits performed by the Army Audit Agency, Army, Deputy Chief of Staff, G-2, and Army Commands that use Intelligence Contingency Funds. As a result, disbursing officers were unable to provide assurance that funds for which they were accountable were used as stated.

### **Criteria**

DoD FMR, volume 5, chapter 11, “Disbursements,” February 2006, requires that supporting documentation for classified payments be retained at the office where it was prepared, along with other classified material.

The Army, Deputy Chief of Staff, G-2 is responsible for policy formulation, planning, programming, budgeting, management, staff supervision, evaluation, and oversight for intelligence activities for the Army. The Deputy Chief of Staff, G-2 provides guidance on the audits of Intelligence Contingency Funds through Army Regulation (AR) 381-141, “Intelligence Contingency Funds,” July 30, 1990.

According to AR 381-141, requires the Army Audit Agency; Army, Deputy Chief of Staff, G-2; and any Army commands that use Intelligence Contingency Funds must audit the offices that are involved with disbursing Intelligence Contingency Funds. AR 381-141 requires the results of audits of Intelligence Contingency Funds to be forwarded to Army, Deputy Chief of Staff, G-2, but it does not prescribe procedures for relaying the results of these audits to the servicing disbursing offices. Because AR 381-141 is classified, the distribution and contents of the regulation are restricted.

### **Intelligence Contingency Funds Disbursement Support**

DOs at a finance command we visited were unable to verify that disbursements involving Intelligence Contingency Funds were supported by receipts. DoD FMR volume 5, chapter 11 requires Army commands that use Intelligence Contingency Funds to forward only their vouchers, not the receipts that support the vouchers, to the servicing disbursing offices. Further, DOs were not able to verify the vouchers themselves and could not obtain the results of independent reviews of the Intelligence Contingency Funds disbursements.

### **Distribution of Audit Results**

The DOs did not have access to classified receipts, did not receive the results of audits of the classified disbursements, and, because of the classified nature of the AR 381-141, were not even aware that an Army regulation required routine audits of classified disbursements. Although AR 381-141 required the audits of Army Commands that use Intelligence Contingency Funds to verify the support for disbursement, it did not require that the results of those audits be forwarded to DOs. Therefore, Army, Deputy Chief of Staff, G-2 did not forward the results of audits of Intelligence Contingency Funds to DOs. Without the appropriate notification, the DOs were not able to provide assurance that the required documentation to support the disbursements of Intelligence Contingency Funds was being retained at the voucher-preparing office, as required by DoD financial regulations.

## **Corrective Action Taken**

As a result of our audit, Army, Deputy Chief of Staff, G-2 issued an interim policy to AR 381-141 requiring that an unclassified memorandum be sent to Army Finance Command management after every audit of Intelligence Contingency Funds disbursements stating whether the vouchers and supporting documentation for disbursements were being maintained in accordance with DoD financial regulations (See Appendix L). We believe that the corrective action taken has resolved this issue. Therefore, further recommendations are not necessary.

## Appendix A. Scope and Methodology

We conducted this performance audit from February 2007 through January 2008 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Observations and findings in this report are as of June 30, 2007. We visited Defense Finance and Accounting Service Indianapolis and the U.S. Army Corps of Engineers Finance Center in Millington, Tennessee. We visited the following disbursing field sites outside of the continental U.S. from June through July 2007:

- Yongsan, South Korea;
- Camp Humphreys, South Korea;
- Camp Casey, South Korea;
- Taegu, South Korea;
- Mons, Belgium;
- Heidelberg, Germany;
- Kaiserslautern, Germany; and
- Mannheim, Germany.

We were not able to perform site visits in Southwest Asia due to scheduling conflicts with other audits being performed by the DoD OIG in the region. Accordingly, we announced a separate audit, Project No. D2008-D000FP-0132.000, "Internal Controls over Army, General Fund, Cash and Other Monetary Assets Held in Southwest Asia," on February 25, 2008 to review whether internal controls for Army, General Fund, Cash and Other Monetary Assets held in Southwest Asia are effectively designed and are operating to adequately safeguard, account for, document, and report Cash and Other Monetary Assets.

We reviewed the internal controls over Army Cash and Other Monetary Assets that are accounted for OCONUS. The Army General Fund reported \$2.2 billion on the COMA line as of June 30, 2007. The Army General Fund COMA includes \$26.7 million CONUS and \$2.19 billion OCONUS. We observed conditions, verified existence, compared documents, interviewed staff, and analyzed documents to determine whether internal controls were designed and operating as intended. Specifically, we verified the existence of Cash and Other Monetary Assets as reported on the daily SOA; confirmed payment and collection documents to ensure sufficient internal controls over cash and disbursing; reviewed security programs for disbursing offices; verified the SOA for completeness, accuracy, and existence of disbursements; and reviewed the disbursing office's reconciliation of its limited depository accounts. Additionally, we reviewed the following accountability forms, where applicable, for accuracy, completeness and timeliness:

- Statement of Agent Officer's Account (DD Form 1081),
- Daily Statement of Accountability (DD Form 2657),
- Daily Agent Accountability Summary (DD Form 2665), and
- Statement of Accountability (SF 1219).

Further, we inquired into the uses and amounts of COMA obtained by the field sites during the period under review. We also performed analytical procedures and a review of the compilation process used to report the COMA balance on the Army GF balance sheet.

## **Review of Internal Controls**

We identified material internal control weaknesses with Army and DFAS Indianapolis as defined by DoD Instruction 5010.40, “Managers’ Internal Control Program Procedures,” January 4, 2006. They are significant enough to be reported to the next higher level of management. Specifically, we identified the following material management control weaknesses:

- Army internal controls were not in place to ensure a verifiable detailed listing of the universe of COMA reported on the Army SOA and AGF balance sheet (finding A). Recommendations A.1.a and A.1.b, if implemented, will develop and maintain a centralized system to identify all disbursing officers, deputy disbursing officers, and paying agents that report to the disbursing officer by location and the amounts for each category of COMA as reported on the SOA.
- DFAS Disbursing Operations internal controls over reporting disbursements and collections by deputy disbursing officers in Afghanistan were not adequate to ensure the accuracy of the COMA line item (finding B). Recommendation B, if implemented, will facilitate the timely recording of Afghanistan disbursements.
- OUSD(C)/CFO internal controls over reporting COMA assets on the AGF balance sheet were not adequate to ensure that COMA was fairly presented on the June 30, 2007, balance sheet (finding D). This is addressed in the DoD Wide Report, “Internal Controls Over DoD Agency-Wide Cash and Other Monetary Assets.” Therefore, a recommendation will not be made in this report.
- Army internal controls were not adequate to ensure the accurate categorization of COMA on the Army’s SOA (finding G). Recommendation G.1.a, if implemented, will establish procedures and processes to allow for the accurate categorization of COMA on the Army’s Statement of Accountability.

We also identified the following deficiencies in internal control during our fieldwork. However, corrective actions were taken, and we believe that the corrections resolved these issues.

- DFAS internal controls over compiling input to the balance sheet were not adequate to ensure the accuracy of the COMA line item (finding C). Based on our audit, DFAS Indianapolis developed procedures to correct this. We believe that the corrective action has resolved this issue.
- Internal controls promulgated by the OUSD(C)/CFO over the method of payment for Official Representation Fund Payments were not adequate (finding E). Based on our audit, OUSD(C)/CFO issued a memorandum that makes the Government Purchase Card the preferred method of payment. We believe that the corrective action has resolved this action.

- OUSD(C)/CFO internal controls over limited depository accounts were not adequate to ensure account balances are kept at a minimum (finding F). Based on our audit, OUSD(C)/CFO issued a memorandum that encourages disbursing officers to use ITS.GOV when possible. We believe that the corrective action has resolved this issue.
- Army internal controls over the verification of Intelligence Contingency Funds were not adequate (finding H). As a result of our audit, DCS G-2 issued an change to AR 381-141 requiring that an unclassified memorandum be sent to FINCOM management stating that an inspection was conducted, funds were used for the stated purpose, and no significant issues were noted. We believe that the corrective action has resolved this issue.

**Adequacy of Management’s Self-Evaluation.** DFAS and Army management’s self-evaluation was not adequate. DFAS and Army officials did not include the internal control deficiencies listed above in its assessable units. Additionally, DFAS and Army management did not report the material management control weaknesses identified by the audit.

We will provide a copy of this report to the senior officials responsible for internal controls in the Department of the Army and DFAS Indianapolis.

## **Use of Computer-Processed Data**

We used a limited amount of computer-processed data for this report. Specifically, we obtained SF 1219s (and selected other forms) produced by Deployable Disbursing System, Corps of Engineers Financial Management System, and Standard Finance System-Redesign Subsystem 1 at our various site visits. We tested existence controls over Cash and Other Monetary Assets, which allowed us to verify relevant portions of the SF 1219s. We did not find errors that would preclude the use of computer-processed data to meet audit objectives or that would change the conclusions in the report.

## **Use of Technical Assistance**

We did not use technical assistance to perform this audit.

## **Government Accountability Office High-Risk Area**

The Government Accountability Office has identified several high-risk areas in DoD. This report provides coverage of the DoD Financial Management high-risk area.



## **Appendix B. Prior Coverage**

During the last 5 years, the Department of Defense Inspector General (DoD IG), U.S. Army Audit Agency (AAA), U.S. Air Force Audit Agency (AFAA), Coalition Provisional Authority (CPA), and the Special Inspector General for Iraq Reconstruction (SIGIR) having issued 14 reports discussing cash and other monetary assets. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/audit/reports>.

### ***DoD IG***

DoD IG Report No. D-2007-028, “Controls Over Army Cash and Other Monetary Assets,” November 24, 2006

### ***Army***

AAA Report No. A-2005-0206-FFG, “Validation of the Statement of Accountability, Attestation of Disbursing Station Symbol Number 8551 336th Finance Command, Camp Arifjan, Kuwait,” June 29, 2005

AAA Report No. A-2005-0136-ALW, “Attestation Examination of Selected Army Chief Financial Officers Strategic Plan Tasks-Fund Balance With Treasury,” March 18, 2005

AAA Report No. A-2005-0127-ALW, “Validation of the Army's Fund Balance With Treasury,” March 10, 2005

AAA Report No. A-2005-0104-ALW, “Disbursing Station Expenditure Operations-DoD Disbursing Station Number 5570,” February 14, 2005

AAA Report No. A-2004-0431-AMW, “Validation of the Army's Fund Balance With Treasury, Defense Finance and Accounting Service Columbus Center,” August 3, 2004

### ***Air Force***

AFAA Report No. F2006-0006-FD3000, “Central Command Air Forces Deployed Locations Cash Management,” August 3, 2006

AFAA Report No. F2003-0003-FB4000, “Nonappropriated Fund Cash Controls,” December 30, 2002

AFAA Report No. F2002-0007-B05400, “Follow-up Audit, Controls Over Air Force Cash,” June 20, 2002

## ***Coalition Provisional Authority***

Office of the Inspector General for the Coalition Provisional Authority Report Number 04-008, "Coalition Provisional Authority Control Over Seized and Vested Assets," July 30, 2004

Office of the Inspector General for the Coalition Provisional Authority Report Number 04-007, "Oil for Food Cash Controls for the Office of Project Coordination in Erbil, Iraq," July 26, 2004

## ***Special Inspector General for Iraq Reconstruction***

SIGIR Memorandum Number 06-024, "Joint Cash Count: Iraq National Weapons Card Program," July 26, 2006

SIGIR Report Number 06-010, "Review of the Multi-National Security Transition Command-Iraq Reconciliation of the Iraqi Armed Forces Seized Assets Fund," April 28, 2006

SIGIR Report Number 06-002, "Prompt Payment Act: Analysis of Expenditures Made From the Iraq Relief and Reconstruction Fund," February 3, 2006

## Appendix C. Glossary

**Deputy Disbursing Officer.** An individual appointed by the disbursing officer to act in the name of that disbursing officer to perform any and all acts relating to the receipt, disbursement, custody, and accounting for public funds. The disbursing officer making the appointment may restrict the acts a deputy is authorized to perform. All deputy disbursing officer appointees must be U.S. citizens.

**Disbursing Agent.** An agent to the disbursing officer that has not been appointed as a deputy disbursing officer. Generally, a disbursing agent operates a permanently located disbursing office of considerable size that is geographically separated from the disbursing officer's office; however the use of disbursing agents is not restricted to geographic separation from the DO.

**Disbursing Office.** An organization whose principal function consists of the disbursement, collection, and reporting of public funds. The term “disbursing office” includes both tactical and nontactical disbursing activities. Each disbursing office will have a disbursing officer and should have at least one deputy position, which is under the direct cognizance and control of the disbursing officer.

**Disbursing Officer.** A military member or a civilian employee of a DoD component designated to disburse monies and render accounts according to laws and regulations governing the disbursement of public monies. All DO appointees must be U. S. citizens.

**Disbursing Station Symbol Number (DSSN).** A four-digit number assigned to each disbursing office by the Department of the Treasury. The DSSN is an identification number that indicates authority to receive and disburse public funds and issue checks from the United States Treasury.

**Electronic Funds Transfer.** Transfer of funds, other than a transaction originated by cash, check, or similar paper instrument, that is initiated through an electronic terminal, telephone, or computer for the purpose of ordering, instructing, or authorizing a financial institution or authorized payment agent to debit or credit an account.

**Limited Depository Account.** A checking account in a foreign currency maintained in a limited depository by a disbursing officer in his or her name. Limited depository accounts also may be referred to as operating accounts.

**Official Representation Funds Payments.** The purpose of ORF is “to host official receptions, dinners, and similar events, and to otherwise extend official courtesies to guests of the United States and the Department of Defense for the purpose of maintaining the standing and prestige of the United States and the Department of Defense.” These events are often dinners and other events to build relations with local officials.

**Paying Agent.** The purpose of a paying agent is to make specific payments, currency conversions, or check cashing transactions from funds temporarily advanced to the agent by the disbursing officer. Paying agents are individuals whose regular duties do not involve disbursing functions and who are not located in the disbursing office.



## Appendix D. Total Balance Sheet Overstatement

As of June 30, 2007, internal control and cash processing weaknesses had resulted in a \$320,975,368 overstatement of Army General Fund Cash and Other Monetary Assets.

<b>Finding</b>	<b>Amount of Overstatement</b>
B. Reporting Disbursements	\$113,875,757
C. Duplicate Reporting	994,315
D. Reporting of Non-COMA Assets	206,105,296
<b>Total Overstatement</b>	<b>\$ 320,975,368</b>



# Appendix E. Statement of Accountability

SF 1219 STATEMENT OF ACCOUNTABILITY		
PART A - TRANSACTIONS DURING PERIOD AFFECTING ACCOUNTABILITY		
1.0	TOTAL ACCOUNTABILITY BEGINNING OF PERIOD	0.00
1.2	TOTAL ACCOUNTABILITY BEGINNING OF PERIOD (FOREIGN CURRENCY)	0.00
2.0	<b>INCREASES IN ACCOUNTABILITY</b>	
2.1	CHECKS ISSUED ON U.S. TREASURY	0.00
2.11	CHECKS ISSUED/ADJUSTMENTS-TFS FORM 5206	0.00
2.12	CHECKS ISSUED/ADJUSTMENTS-215 PAYMENT VOUCHERS	0.00
2.3	OTHER TRANSACTIONS	0.00
2.34	DISCREPANCIES IN D.O. ACCOUNTS – CREDITS	0.00
2.36	PAYMENTS BY ANOTHER D.O.	0.00
2.37	TRANSFERS FROM OTHER DISBURSING OFFICERS	0.00
2.39		0.00
2.8	IPAC PAYMENTS AND COLLECTIONS	0.00
2.9	<b>TOTAL INCREASE IN ACCOUNTABILITY</b>	<b>0.00</b>
3.0	<b>SUBTOTAL</b>	<b>0.00</b>
4.0	<b>DECREASES IN ACCOUNTABILITY</b>	
4.1	NET DISBURSEMENTS	0.00
4.2	DEPOSITS PRESENTED OR MAILED TO BANK	0.00
4.3	OTHER TRANSACTIONS	0.00
4.34	DISCREPANCIES IN D.O. ACCOUNTS – DEBITS	0.00
4.36	PAYMENTS FOR ANOTHER D.O.	0.00
4.37	TRANSFERS TO OTHER DISBURSING OFFICERS	0.00
4.39		0.00
4.9	<b>TOTAL DECREASES IN ACCOUNTABILITY</b>	<b>0.00</b>
5.0	<b>TOTAL ACCOUNTABILITY CLOSE OF PERIOD</b>	<b>0.00</b>
5.2	TOTAL ACCOUNTABILITY CLOSE OF PERIOD (FOREIGN CURRENCY)	0.00
<b>PART B - ANALYSIS OF INCUMBENT OFFICER'S ACCOUNTABILITY</b>		
6.1	CASH ON DEPOSIT IN DESIGNATED DEPOSITARY	0.00
6.2	CASH ON HAND AND IN TRANSIT TO TREASURY	0.00
6.3	CASH - UNDEPOSITED COLLECTIONS	0.00
6.4	CUSTODY OR CONTINGENCY CASH	0.00
6.5	CASH IN CUSTODY OF GOVERNMENT CASHIERS	0.00
6.6	ADVANCES TO CONTRACTORS	0.00
6.7	CASH IN TRANSIT	0.00
6.8	PAYROLL CASH	0.00
6.9	OTHER CASH ITEMS	0.00
7.1	DEFERRED CHARGES -VOUCHERED ITEMS	0.00
7.3	LOSSES OF FUNDS	0.00
7.4	RECEIVABLES - DISHONORED CHECKS	0.00
8.0	<b>TOTAL OF MY ACCOUNTABILITY</b>	<b>0.00</b>
<b>PART C - PREDECESSOR OFFICER'S ACCOUNTABILITY</b>		
9.2	RECEIVABLES- CHECK OVERDRAFTS	0.00
9.3	LOSSES OF FUNDS	0.00
9.4	OTHER ACCOUNTABILITY	0.00
10.0	<b>TOTAL PREDECESSOR OFFICER'S ACCOUNTABILITY</b>	<b>0.00</b>
11.0	<b>TOTAL DISBURSING OFFICER ACCOUNTABILITY</b>	<b>0.00</b>



# Appendix F. Official Representation Funds Memorandum



COMPTROLLER

OFFICE OF THE UNDER SECRETARY OF DEFENSE  
1100 DEFENSE PENTAGON  
WASHINGTON, DC 20301-1100

DEC 18 2007

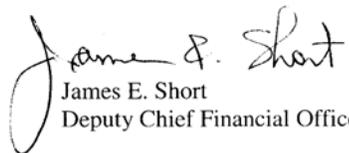
MEMORANDUM FOR ASSISTANT SECRETARIES OF THE MILITARY DEPARTMENTS (FINANCIAL MANAGEMENT AND COMPTROLLERS)  
U.S. MARINE CORPS, ASSISTANT DEPUTY COMMANDANT FOR PROGRAMS AND RESOURCES  
COMMANDERS OF THE COMBATANT COMMANDS  
INSPECTOR GENERAL OF THE DEPARTMENT OF DEFENSE  
DIRECTORS OF THE DEFENSE AGENCIES  
COMMANDER, U.S. ARMY CORPS OF ENGINEERS  
DIRECTORS OF THE DOD FIELD ACTIVITIES

SUBJECT: Preferred Payment Method for Official Representation Funds

A recent audit by the Department of Defense (DoD) Inspector General identified instances where cash versus the Government Purchase Card (GPC) was used to procure goods and services in support of Official Representation Fund (ORF) events. In accordance with the Federal Acquisition Regulation 13.201, "Actions at or Below the Micro-Purchase Threshold," the GPC is the preferred method of payment. This also applies to ORF expenditures when the infrastructure supports GPC usage.

A separate GPC account should be established to ensure accountability and transparency of ORF expenditures. All requirements of DoD Directive, 7250.13, "Official Representation Fund" and supplementing Component instructions will be adhered to. Additionally, to reduce the risk of an Antideficiency Act violation, cardholders and authorizing officials should verify the availability of ORF funds before making purchases for properly authorized functions. Authorizing officials and commanders should ensure management controls are in place and supporting documentation is readily available when requested by auditors or investigators.

My point of contact is Ms. Audrey Clark. She may be reached by phone at (703) 695-9437 or by email at [audrey.clark@osd.mil](mailto:audrey.clark@osd.mil).

  
James E. Short  
Deputy Chief Financial Officer



# Appendix G. Electronic Funds Transfer Contract Payment Memorandum



HEADQUARTERS  
JOINT CONTRACTING COMMAND-IRAQ/AFGHANISTAN  
APO AE 09316



PARC-I

25 September 2007

MEMORANDUM FOR PARC-I Contracting Officers and HNBAAs

SUBJECT: Contract Payment by Electronic Funds Transfer

Joint Contracting Command-Iraq contracting officers and host nation business advisors will play a key role in a phased plan to implement contract payment by electronic funds transfer (EFT) in Iraq. This EFT initiative will promote a modern banking sector in Iraq by leveraging JCC-I's roughly one hundred fifty million dollars per month awarded to host nation vendors.

Phase I, effective 1 October 2007 for RCC Baghdad, RCC Taji, RCC Victory, MNSTC-I MSD, and TWR: New contracts and orders with an award amount  $\geq$  to \$50,000 shall require the vendor to be paid by electronic funds transfer (EFT) to a bank of the vendor's choosing. Further, EFT will be the preferred method of payment for all Iraq RCCs.

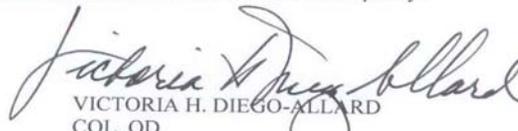
Phase II, effective 1 December 2007 for RCC Baghdad, RCC Taji, RCC Victory, MNSTC-I MSD, and TWR: The threshold award amount is lowered to  $\geq$  to \$25000.

Phase III, effective 15 January for RCC Tikrit, RCC Mosul, RCC Kirkuk, and RCC Basrah. These locations shall implement mandatory EFT payments for new contracts and orders with an award amount  $\geq$  to \$25000.

Regional Contracting Centers should promote the use of EFT at vendor day presentations, site visits, I-BIZ locations, and pre/post-award meetings. When a vendor chooses to use EFT for on a current contract, the contracting officer will modify the payment instructions as quickly as possible. The contracting officer will document that the government's consideration for the administrative modification is the reduction in handling of cash transactions and the long-term benefit to the Iraqi banking system.

This policy and contract language will be included in the next Acquisition Instruction update. Lt Col Kristen Nelson, [kristen.nelson@iraq.centcom.mil](mailto:kristen.nelson@iraq.centcom.mil), is the POC for this policy.

Attachment:  
Draft AI Language

  
VICTORIA H. DIEGO-ALLARD  
COL, OD  
Principal Assistant Responsible  
for Contracting-Iraq



## Appendix H. Non-Cash Statement of Accountability Line Items

Line Item Number	Statement of Accountability Line Item and Definition
6.6	<b>Advances to Contractors.</b> Used to record cash advanced to contractors under advance pool agreements.
6.9	<b>Other Cash Items.</b> Used for exchange-for-cash checks prepared in advance and pre-positioned checks awaiting pickup by a Deputy DO, disbursing agent, or cashiers.
7.1	<b>Deferred Charges-Vouchered Items.</b> Used to record any paid voucher that has not been recorded in the accounting system.
7.2	<b>Receivables-Check Overdrafts.</b> Used for check issue overdraft increases and for any disbursements or collections against and undercharged appropriation reducing the check issue overdraft.
7.3	<b>Loss of Funds.</b> Used to record any physical losses of cash, negotiable instruments, and uncollected dishonored check amounts.
7.4	<b>Receivables-Dishonored Checks.</b> Used for any dishonored checks received that are to be retained in DO accountability. Also for dishonored checks collected or for which relief has been granted that are currently carried in DO accountability.
9.2	<b>Receivables-Check Overdrafts.</b> Used by incumbent DO to settle the predecessor DO accounts. Compute in the same manner as Line 7.2.
9.3	<b>Loss of Funds.</b> Used by incumbent DO to settle the predecessor DO accounts. Compute in the same manner as Line 7.3.
9.4	<b>Other Accountability.</b> Used by incumbent DO to settle the predecessor DO accounts. Compute in the same manner as Line 7.4.



## Appendix I. Army Disbursing Stations Visited

<b>DSSN</b>	<b>Location of Disbursing Office</b>
5023	Yongsan, South Korea
5499	Mons, Belgium
5570	DFAS-Indianapolis, U.S.
6387	Kaiserslautern, Germany
6411	Yongsan, South Korea
6411	Camp Humphreys, South Korea
6411	Camp Casey, South Korea
6411	Taegu, South Korea
6460	Mannheim, Germany
8548	Heidelberg, Germany
8735	USACE Finance Center, Millington, Tennessee



# Appendix J. Guidance for International Treasury Services Usage



COMPTROLLER

OFFICE OF THE UNDER SECRETARY OF DEFENSE  
1100 DEFENSE PENTAGON  
WASHINGTON, DC 20301-1100

FEB 12 2008

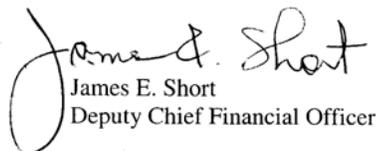
MEMORANDUM FOR ASSISTANT SECRETARIES OF THE MILITARY  
DEPARTMENTS (FINANCIAL MANAGEMENT AND  
COMPTROLLERS)  
U.S. MARINE CORPS, ASSISTANT DEPUTY  
COMMANDANT FOR PROGRAMS AND RESOURCES  
COMMANDERS OF THE COMBATANT COMMANDS  
INSPECTOR GENERAL OF THE DEPARTMENT OF  
DEFENSE  
DIRECTORS OF THE DEFENSE AGENCIES  
COMMANDER, U.S. ARMY CORPS OF ENGINEERS  
DIRECTORS OF THE DOD FIELD ACTIVITIES

SUBJECT: Foreign Disbursing Operations - International Treasury Services Usage

The International Treasury Services (ITS.gov) is the Federal Government's comprehensive payment and collection system. The ITS.gov electronically processes international transactions similar to the electronic funds transfer used within the continental United States. ITS.gov supports both foreign currency and U.S. dollar payments. Currently, ITS.gov is used in over 150 countries and supports 135 currencies.

In accordance with the Department of Defense Financial Management Regulation Volume 5, Chapter 12, disbursing officers are encouraged to use ITS.gov where the infrastructure will support its usage. The use of ITS.gov will reduce the amount of cash required to support our overseas operations; eliminate the costs for international transaction processing; and provide the latest security technology.

Managers must ensure internal control procedures are in place for transparency and accountability over ITS.gov transactions. My point of contact is Ms. Audrey Clark. She may be reached by phone at (703) 695-9437 or email at [audrey.clark@osd.mil](mailto:audrey.clark@osd.mil).

  
James E. Short  
Deputy Chief Financial Officer



## Appendix K. Reporting Entities and Computer Systems Used to Manage COMA

Reporting Entity	Computer System Used
Finance Commands	Deployable Disbursing System
Defense Finance and Accounting Service	STANFINS Redesign Subsystem 1
U.S. Army Corps of Engineers	Corps of Engineers Financial Management System



# Appendix L. Interim Change to AR 381-141, Intelligence Contingency Funds



DEPARTMENT OF THE ARMY  
OFFICE OF THE DEPUTY CHIEF OF STAFF, G-2  
1000 ARMY PENTAGON  
WASHINGTON DC 20310-1001

DAMI-RI

MEMORANDUM FOR SEE DISTRIBUTION

SUBJECT: Interim Policy, AR 381-141, Intelligence Contingency Funds (ICF)—Reporting Results of Audits or Inspections of ICF Disbursements (U)

1. Purpose. To establish an interim policy governing the reporting of results of ICF disbursement audits or inspections to the Army Finance Commands.
2. Background. In 2007, the Department of Defense Inspector General (DoDIG) conducted a review of internal controls of cash operations throughout DoD. One DoDIG finding relating to the Department of the Army was that Army Finance Commanders could not fulfill their ICF cash review regulatory responsibilities because ICF Disbursing Officers (DOs) were unable to verify that disbursements involving ICF were supported by receipts. This occurred because the ICF DOs were not granted access to the classified documentation supporting ICF vouchers, and the results of ICF audits or inspections were not provided to the DOs' finance command.
3. AR 381-141, Chapter 5, currently does not require forwarding a report of the results of audits or inspections of ICF disbursements to DOs or to their finance commands, nor does it expressly require providing a copy of such reports to the HQDA, Office of the Deputy Chief of Staff, G-2.
4. Policy. To assist Army Finance Commanders, who have responsibility for reviewing ICF disbursements, the following interim policy is effective immediately.
  - a. Following any inspection of ICF disbursements, the auditing or inspecting entity will provide an unclassified memorandum to the DCS- G2 and to the commander of the inspected unit or organization stating whether the vouchers and supporting documentation for the disbursements are being maintained IAW DoD financial regulations.
  - b. The commander of the unit/organization inspected will forward a copy of the unclassified memorandum, specified in paragraph 4a, to the appropriate Army Finance Command that oversees their ICF disbursements. In the event the commander does not receive an unclassified memorandum from the audited entity, he/she will ensure an unclassified memorandum is prepared addressing the results of the audit/inspection of voucher and document retention procedures and forward it to the appropriate Army Finance Command.
5. The Office of the Deputy Chief of Staff, G-2 point of contact is Mr. George Hall, DSN 225-1203, SIPRNET address: george.hall2@mi.army.smil.mil.

A handwritten signature in black ink, appearing to read "John F. Kimmons", is positioned above the typed name.

JOHN F. KIMMONS  
Lieutenant General, GS  
Deputy Chief of Staff, G-2



# Army Comments



REPLY TO  
ATTENTION OF

**DEPARTMENT OF THE ARMY**  
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY  
FINANCIAL MANAGEMENT AND COMPTROLLER  
109 ARMY PENTAGON  
WASHINGTON DC 20310-0109

JUL 25 2008

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDITING, OFFICE OF THE DEPARTMENT OF DEFENSE INSPECTOR GENERAL, 400 ARMY NAVY DRIVE, ARLINGTON, VIRGINIA 22202

SUBJECT: DoDIG Draft Report on Internal Controls Over Army General Fund Cash and Other Monetary Assets Held Outside the Continental United States (Project No. D2007-D000FP-0122.000)

1. We appreciate the opportunity to comment on the subject draft audit and our comments are attached. However, we have concerns with the report as it is written and they are:

a. It is our understanding that Finding A and the executive summary will be modified to clearly specify that the Army did centrally have a breakout of cash at the disbursing officer level in accordance with existing Treasury and DoD guidance. The statement on lack of detail is based on a desire to have a central database showing a breakout of cash and other monetary assets below the disbursing officer level. We have agreed to accommodate this new requirement in order to facilitate audits; but there is no regulatory or statutory requirement for the agency to centrally maintain a breakout below the disbursing office level.

b. Finding D appears to be in error by including line 6.9-Other Cash items as not part of Cash and Other Monetary Assets (COMA). This results in the finding being overstated as a \$206 million discrepancy rather than a \$2 million discrepancy. Line 6.9 is Treasury exchange-for-cash checks prepared in advance and pre-positioned Treasury checks awaiting pickup by a deputy, agent, or cashier. In fact, \$204 of the \$206 million on this line at the end of June 2007 represented an exchange for cash in Germany being processed to fund Iraq that happened to occur at the end of the accounting month. We recognize that this same error is included in the overall DoD level COMA audit and have coordinated with the DoD Comptroller staff on our response.

c. Finding F impact of up to \$270 million potentially available for conversion to ITS.GOV is somewhat overstated because this includes collections of foreign currency and, in particular, burden sharing funds from Japan and Korea. While some reductions in local depository balances are feasible, elimination of many would require significant reprogramming of unique local national payroll systems currently designed to make payments electronically using the local depository account and indigenous banking data structures in order to support payments through the international banking network.

d. Finding G identifies \$266 million in Contingency cash as being classified incorrectly as \$235 million in Local Depository Accounts and \$31 million as Cash with Agents because current systems do not support reporting under the Contingency Cash line of the Statement of Accountability. In accordance with the auditors' recommendation, the Army has published policy directing Contingency Cash be reported under the line for Local Depository Accounts as the most appropriate to use given current systems' constraints. This change in policy impacts reporting by only \$31 million as one command was already in compliance. Since all three lines in question are summarized into one line on the financial statements, there is no direct impact on those statements.

2. Our fiscal year 2008 Annual Statement of Assurance discloses the fund balance with Treasury (FBWT) in the general fund as a material weakness. Since cash and other monetary assets is a subject of FBWT process and reporting activity, we will include all open corrective actions within the FBWT material weakness.

3. Specific responses to the draft recommendations are attached. My point of contact for this matter is Mr. G. Eric Reid at [eric.reid@dfas.mil](mailto:eric.reid@dfas.mil) or telephone (317) 510-2223.

  
John J. Argodale  
Deputy Assistant Secretary of the Army  
(Financial Operations)

**DoDIG Project No. D2007-D000FP-0122.000**

**Internal Controls over Army General Fund Cash and Other Monetary Assets  
Held Outside the Continental United States**

**Department of the Army Comments to the Recommendations**

**Recommendation A-1:** We recommend that the Deputy Assistant Secretary of the Army (Financial Operations) coordinate with the Defense Finance and Accounting Service, Information Technology, Systems Management, Director to:

- a. Develop the capability within the Deployable Disbursing System to identify all disbursing officers, deputy disbursing officers, and paying agents that report to the disbursing officer by location and the amounts of each category of Cash and Other Monetary Assets as captured on the statements of accountability.
- b. Consolidate data reported by all Army Disbursing stations into a centralized database or system. The centralized system should be able to report all disbursing officers, deputy disbursing officers, and paying agents that report to the disbursing officer by location and amount for each category of Cash and Other Monetary Assets as captured on the statements of accountability.
- c. Report a material weakness for Cash and other monetary Assets in the Army Annual Statement of Assurance and Annual Financial Report until all the recommendations in this report have been implemented.

**Army Response:**

- a. Concur. A systems change request (SCR X0282) to centrally gather and warehouse Deployable Disbursing System (DDS) data from each disbursing office level database has been approved by the DDS configuration control board and is scheduled for implementation in July 2009.
- b. Concur. A systems change request (SCR X0282) to centrally gather and warehouse Deployable Disbursing System (DDS) data from each disbursing office level database has been approved by the DDS configuration control board and is scheduled for implementation in July 2009.
- c. Concur. Our FY 08 Annual Statement of Assurance reports fund balance with Treasury as a material weakness. Open recommendations will be reported and tracked in the Army's Financial Improvement Plan and the Department's Financial Improvement Audit Readiness Plan.

**Recommendation B:** We recommend that the Deputy Assistant Secretary of the Army (Financial Operation) and Director, Defense Finance and Accounting Service-Indianapolis, Director Disbursing Operations: Facilitate the timely recording of Afghanistan disbursements by purchasing scanning equipment for use by Disbursing

Station 5570 officials, or until this is feasible, modify reporting procedures for Afghanistan Army Deputy Disbursing Officers and Disbursing Operations to record cash disbursements.

**Army Response:** Concur. DFAS has revised reporting of these in transit disbursements so they will not reflect as COMA on the financial statements. DFAS has procured the hardware and validated File Transfer Protocol capability for Afghanistan to support implementation of the Corporate Electronic Document Management System. This will allow imaging of vouchers paid in Afghanistan in conjunction with other planned automation upgrades for the theater

**Recommendation G:** We recommend that the Deputy Assistant Secretary of the Army (Financial Operations): Provide consistent guidance and procedures for reporting Contingency Cash for DoD's contractor-operated military banking facilities to overcome systems limitations.

**Army Response:** Completed. The Army central funding offices in Europe and Korea have been directed to record contingency cash as funds maintained in a local depository account.

# Defense Finance and Accounting Service Indianapolis Comments



**DEFENSE FINANCE AND ACCOUNTING SERVICE**  
8899 EAST 56 TH STREET  
INDIANAPOLIS, INDIANA 46249

DFAS-JB/IN

JUL 15 2008

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Internal Controls over Army General Fund Cash and Other Monetary Assets Held Outside the Continental United States, Project No. D2007-D000FP-0122.000

Indianapolis Operations is providing management comments to the draft report.

**Recommendation A.1:** We recommend that the Deputy Assistant Secretary of Army (Financial Operations) coordinate with the Defense Finance and Accounting Service, Information Technology, Systems Management, Director to:

a. Develop the capability within Deployable Disbursing System to identify all disbursing officers, deputy disbursing officers, and paying agents that report to the disbursing officer by location and the amounts for each category of Cash and Other Monetary Assets as captured on the statements of accountability.

**Comment:** Concur. If Army agrees to this recommendation and makes it a requirement for DFAS, we will coordinate with Army to determine the best method to capture this data. Point of contact is Pete Richards, 317-510-7044.

**Estimated Completion Date:** August 1, 2009

b. Consolidate data reported by all Army Disbursing stations into a centralized database or system. The centralized system should be able to report all disbursing officers, deputy disbursing officers, and paying agents that report to the disbursing officer by location and amount for each category of Cash and Other Monetary Assets as captured on the statements of accountability.

**Comment:** Concur. Central database. DFAS has SCR x0282 to centralize all the DDS databases in one location. As we work through the detailed requirements with the Army, we will likely include some type of dashboard/reporting functionality to retrieve data. We will need to rely on deployed units following some type of procedure to be developed to send exports of their databases on a regular basis to this central location. DFAS can maintain the database at a cost. Coordination with the Army to pay for the required hardware and support to maintain it in addition to the cost to develop the capability will need to be negotiated. The Army needs to maintain responsibility for providing timely updates from the deployed DSSNs. Also, the Army tactical DSSNs were never capitalized by DFAS. DFAS has not been responsible for their operations. As such, any discussion of financial oversight over Army cash operations in regard to the Army DSSNs should be directed to USAFINCOM. Central Disbursing - Indianapolis will provide required information to whoever controls a central database if asked to do so. This could

[www.dfas.mil](http://www.dfas.mil)  
Your Financial Partner @ Work

be somewhat labor intensive with the current legacy systems and business practices. Point of contact is Pete Richards, 317-510-7044.

**Estimated Completion Date:** August 1, 2009

c. Report a material weakness for Cash and Other Monetary Assets in the Army Annual Statement of Assurance and Annual Financial Report until all the recommendations in this report have been implemented.

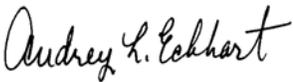
**Comment:** Does not apply to DFAS-Indianapolis Operations.

**Recommendation B:** We recommend that the Deputy Assistant Secretary of Army (Financial Operations) and Director, Defense Finance and Accounting Service-Indianapolis, Director Disbursing Operations:

Facilitate the timely recording of Afghanistan disbursements by purchasing scanning equipment for use by Disbursing Station 5570 officials or, until this is feasible, modify reporting procedures for Afghanistan Army Deputy Disbursing Officers and Disbursing Operations to record cash disbursements.

**Comment:** Concur. DFAS is reporting disbursement vouchers on SF1219 as deferred vouchers. DFAS is also using CEDMS as an alternative method of imaging documents paid in Afghanistan. Point of contact is Ken Kielman, 317-510-4273.

**Action Completed**

  
Steve R. Bonta  
Director, Indianapolis Operations

## **Team Members**

The Department of Defense Office of the Deputy Inspector General for Auditing, Defense Financial Auditing Service, prepared this report. Personnel of the Department of Defense Office of Inspector General who contributed to the report are listed below.

Patricia Marsh

Douglas Neville

Edward Blair

James Fleischman

Mark Henricks

Susan McKaig

Thomas Daquano

William Fagerholm

Damarus Sanders

Marcus Gullett

Ellen Kleiman-Redden



# Inspector General Department of Defense

