Report No. DODIG-2012-027 December 1, 2011

Inspector General
United States Department of Defense

Deficiencies in Journal Vouchers That Affected the FY 2009 Air Force General Fund Statement of Budgetary Resources

Additional 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) 604-8932.

Suggestions for Audits

To suggest or request audits, contact the Office of the Deputy Inspector General for Auditing by phone (703) 604-9142 (DSN 664-9142), by fax (703) 604-8932, or by mail:

ODIG-AUD (ATTN: Audit Suggestions)
Department of Defense Inspector General
4800 Mark Center Drive
Alexandria, VA 22350-1500

DEPARTMENT OF DEFENSE hotline

To report fraud, waste, mismanagement, and abuse of authority.

Send written complaints to: Defense Hotline, The Pentagon, Washington, DC 20301-1900
Phone: 800.424.9098 e-mail: hotline@dodig.mil www.dodig.mil/hotline

Acronyms and Abbreviations

DDRS	Defense Departmental Reporting System
DDRS-AFS	Defense Departmental Reporting System-Audited Financial Statements
DDRS-B	Defense Departmental Reporting System-Budgetary
DFAS	Defense Finance and Accounting Service
DoD FMR	Department of Defense Financial Management Regulation
FIAR	Financial Improvement and Audit Readiness
GAFS-R	General Accounting Finance System-Rehost
SBR	Statement of Budgetary Resources
USD(C)/CFO	Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD
USSGL	U.S. Government Standard General Ledger

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
ALEXANDRIA, VIRGINIA 22350-1500

December 1, 2011

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
ASSISTANT SECRETARY OF THE AIR FORCE
(FINANCIAL MANAGEMENT AND COMPTROLLER)

SUBJECT: Deficiencies in Journal Vouchers That Affected the FY 2009 Air Force General Fund Statement of Budgetary Resources (Report No. DODIG-2012-027)

We are providing this report for review and comment. The Defense Finance and Accounting Service Columbus accountants prepared 6,177 journal vouchers, amounting to approximately $2 trillion, to prepare the Air Force General Fund Statement of Budgetary Resources and associated budgetary reports during FY 2009. Deficiencies in some of these journal vouchers weakened the reliability of the Air Force General Fund Statement of Budgetary Resources and did not fully support audit readiness, nor were all journal vouchers properly approved. In a positive step toward improvement, DFAS issued a memorandum, "Air Force General Fund Journal Vouchers (JVs)," April 18, 2011, establishing a journal voucher review team. We considered management comments on a draft of this report when preparing the final report.

DoD Directive 7650.3 requires that recommendations be resolved promptly. DFAS Columbus comments were partially responsive. We revised Recommendation C.2 as a result of a change in the "DoD Financial Management Regulation" in August 2011. Therefore, we request that DFAS Columbus provide comments on the revised recommendation by January 3, 2012.

If possible, send a .pdf file containing your comments to auddpao@dodig.mil. Copies of your comments must have the actual signature of the authorizing official for your organization. We are unable to accept the /Signed/ symbol in place of the actual signature. If you arrange to send classified comments electronically, you must send them over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Please direct questions to Mark Starinsky at (614) 751-2931.

Amy J. Frontz

Amy J. Frontz, CPA
Principal Assistant Inspector General
for Auditing

Results in Brief: Deficiencies in Journal Vouchers That Affected the FY 2009 Air Force General Fund Statement of Budgetary Resources

What We Did

During FY 2009, Defense Finance and Accounting Service (DFAS) Columbus accountants prepared 6,117 journal vouchers, amounting to approximately $2 trillion, to produce the Air Force General Fund Statement of Budgetary Resources (SBR) and other budgetary reports showing the sources and status of $201.6 billion of available general funds. Our objective was to review the journal vouchers DFAS prepared and used to produce the FY 2009 Air Force General Fund SBR and other budgetary reports for proper support and approval.

What We Found

DFAS Columbus did not always support journal vouchers related to the FY 2009 Air Force General Fund SBR and other budgetary reports with appropriate and sufficient audit evidence, adequately detailed audit trails, or proper management approvals. Specifically, DFAS:

- made 1,680 journal vouchers, amounting to $538 billion, to force agreement of certain financial report totals and did not provide adequate support, such as transaction details or reconciliations;
- did not maintain an adequate detailed audit trail for 89 sample journal vouchers amounting to $169.7 billion; and
- did not properly approve 870 journal vouchers amounting to $877.5 billion.

These deficiencies occurred because DFAS Columbus did not have adequate accounting processes to effectively reconcile the related budgetary accounts or to document an adequate detailed audit trail. Additionally, DFAS Columbus policies for approving journal vouchers did not meet the requirements of the "DoD Financial Management Regulation" (DoD FMR). As a result, DFAS did not ensure the accuracy and reliability of the Air Force General Fund SBR, continuing to delay its audit readiness. DFAS Columbus took corrective actions to address some of these weaknesses.

What We Recommend

The Director, DFAS Columbus, should implement new policies and procedures in internal control over financial reporting to:

- properly support reconciliations with specific accounting transactions and discontinue forcing agreement of amounts to meet budgetary financial reporting requirements;
- include adequate detailed evidence with journal vouchers so that audit trails comply with DoD FMR requirements and properly support audit readiness efforts; and
- eliminate auto-approval of journal vouchers and manually approve all system-prepared journal vouchers, including the appropriate level of approval required by DoD FMR thresholds.

Management Comments and Our Response

The Director, DFAS Columbus, mostly agreed with our recommendations and began corrective actions. Because of a change in the DoD FMR, we revised Recommendation C.2. We request that the Director, DFAS Columbus, provide comments on the revised recommendation. Please see the recommendations table on the back of this page.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Director, Defense Finance and Accounting Service, Columbus	C.2	A.1.a, A.1.b, A.1.c, A.2, B.1.a, B.1.b, B.1.c, B.1.d, B.2, C.1

Please provide comments by January 3, 2012.

Table of Contents

Introduction 1
- Audit Objective 1
- Background on Financial Statement Reporting 1
- DFAS Officials Did Not Have Adequate Accounting Processes 4

Finding A. Forced Journal Voucher Adjustments Weaken the Reliability of Financial Reporting 5
- General Requirements for Journal Voucher Documentation 6
- Reimbursable Activity Adjustments Need Detailed Reconciliation of Budget Authority and Obligations 7
- Standard Financial System Edit Discrepancies Corrected Without Adequate Reconciliation 8
- Nonidentification of Trading Partners Resulted in Recording Unverified Intragovernmental Accounts Receivable and Payable 8
- Detailed Transaction Support for Undistributed Disbursement and Collection Journal Vouchers Required Improvement 10
- Accounts for Expiring and Canceling Appropriations Were Adjusted and Closed With Unresolved Abnormal or Unexpected Balances 11
- Conclusion 12
- Recommendations, Managements Comments, and Our Response 13

Finding B. Audit Trails Require Improvement to Support Audit Readiness 15
- Requirements for Audit Trails 16
- Adequately Documented Journal Voucher Audit Trails Needed 16
- Incomplete Audit Trail From General Ledger to SBR 17
- Management Actions 18
- Conclusion 18
- Recommendations, Managements Comments, and Our Response 19

Finding C. More Stringent Adherence to the DoD FMR Requirements for Journal Voucher Approval Is Needed 20
- Journal Voucher Approval Guidance 20
- Standard Journal Voucher Approval Process at DFAS Columbus 21
- Journal Vouchers Without Appropriate Supervisory Approval 22
- Management Actions 24
- Conclusion 24
- Recommendations, Managements Comments, and Our Response 25

Appendices
- A. Scope and Methodology 27
  - Use of Computer-Processed Data 28
  - Use of Technical Assistance 28
  - Prior Coverage on Journal Voucher Adjustments 28
- B. Air Force General Fund FY 2009 Combined Statement of Budgetary Resources 30

Table of Contents (Cont'd)

Appendices (Cont'd)

C. Air Force General Fund Budgetary Reporting 31
D. Journal Voucher Sample Items Selected for Testing 34

Management Comments

Defense Finance and Accounting Service Columbus 41

Introduction

Audit Objective

Our objective was to review the journal vouchers DFAS Columbus prepared and used to produce the FY 2009 Air Force General Fund SBR and other budgetary reports. Specifically, we determined whether DFAS Columbus properly supported those journal vouchers with sufficient and appropriate documentation and whether management properly reviewed and approved the journal vouchers. See Appendix A for the scope and methodology of our audit and prior audit reports on this subject. See Appendix B for a reprint of the Air Force General Fund FY 2009 Combined SBR. In Appendix C, we provide a discussion of Air Force budgetary reporting. Appendix D is a listing of the journal vouchers we reviewed for this audit.

This audit supports the Air Force financial reporting goal of producing a reliable and auditable SBR as one of its annual financial statements in accordance with the DoD Financial Improvement and Audit Readiness (FIAR) guidance. The SBR reports the sources and status of all funds available to the Air Force in completing its mission annually. As part of its FIAR guidance, the Under Secretary of Defense (Comptroller)/ Chief Financial Officer, DoD, emphasized that achieving audit readiness related to financial data used in its day-to-day business management was most important to the Department. That emphasis included budgetary data, such as that presented in the SBR.

Background on Financial Statement Reporting

The Air Force has a primary responsibility to control the funds provided by Congress and to comply with laws and regulations that limit how and when it uses its funds. The Air Force must comply with legal limitations by year, by appropriation type, by established programs, and by administrative allotments of funds to various organizational levels. It must also comply with those legal limits as it commits, obligates, and expends the funds.

The Air Force used budget execution reports for review and analysis to monitor its compliance with laws and regulations and to report the status of its funds to executive management and Congress. Reports used to manage and report Air Force budget execution include ACCT RPT (M) 1002, "Appropriation Status by Fiscal Year Program and Sub-accounts," and Standard Form 133, "Report on Budget Execution and Budgetary Resources."

As one of the primary Military Departments in DoD, the Air Force is also required to issue audited annual financial statements in accordance with the Chief Financial Officers Act of 1990, as amended by the Government Performance and Results Act of 1993. One of the required audited basic financial statements is the SBR. For the fiscal year ended September 30, 2009, the Air Force reported $201.6 billion in total budgetary resources in its General Fund SBR. The DoD Office of Inspector General disclaimed an opinion on the Air Force FY 2009 General Fund financial statements, which included the SBR.

Budget Accounting and Reporting

The Air Force and DFAS Columbus used a number of accounting and reporting systems as part of their internal control over financial reporting. They primarily operated and maintained those systems used for budgetary reporting. Air Force and DFAS accountants generally recorded budgetary events into original entry accounting systems using transaction documents, such as Treasury warrants, OMB apportionment forms, commitments, purchase orders, receiving documents, invoices, disbursement vouchers, and checks.

Air Force original entry accounting systems that initiate and record its transactions did not apply the Treasury Financial Manual, U.S. Government Standard General Ledger (USSGL) classifications that are required for financial reporting. Accordingly, DFAS Columbus transferred the transaction data from Air Force original entry accounting systems to its General Accounting Finance System–Rehost (GAFS-R), assigning USSGL account numbers to the data during that process. In addition, DFAS Columbus used journal vouchers to record Air Force budget activity to GAFS-R when it could not directly interface data from an original entry accounting system.

Air Force accounting personnel and DFAS Columbus accountants reviewed working drafts of the SBR and the GAFS-R budget reports. They created journal vouchers recorded in GAFS-R to make corrections identified during the reviews. DFAS Columbus then transferred the USSGL amounts from GAFS-R to the official DoD reporting system, Defense Departmental Reporting System (DDRS). DFAS accountants produced the FY 2009 official Air Force budget reports, such as the 1002 and SF 133, using the DDRS–Budgetary module (DDRS-B). They interfaced the accounting data in DDRS-B to a separate DDRS–Audited Financial Statements module (DDRS-AFS) and produced the FY 2009 official Air Force financial statements. DFAS accountants also made additional journal voucher adjustments in DDRS before the release of official financial statements and budget reports.

Significance of Journal Vouchers

Journal vouchers could represent an opportunity for management to bypass many of the controls that exist in original entry accounting systems. Audit standards recognize their importance by specifically requiring the testing of journal vouchers as part of a financial statement audit. Audit standards state that auditors should perform substantive procedures by examining journal entries and other adjustments that management makes in preparing financial statements. Proper preparation, adequate support, and approval for journal vouchers are important to ensuring that journal vouchers accurately record a financial event. In addition, there must be a detailed audit trail leading to the transactions supporting the journal voucher. Because unsupported journal vouchers may affect the

integrity of accounting data, DFAS and Air Force are subject to DoD Regulation 7000.14 R, "DoD Financial Management Regulation" (DoD FMR), volume 6A, chapter 2, which sets forth requirements governing the creation, use, and required support of journal vouchers.

During FY 2009, DFAS Columbus accountants prepared 6,177 journal vouchers, with a value of approximately $2 trillion,[1] adjusting Air Force General Fund budgetary accounts to produce statements of budgetary resources and related budgetary reports. There were similar levels of journal voucher activity in the preceding and succeeding fiscal years. DFAS prepared 6,730 journal vouchers, amounting to $2.4 trillion, in FY 2008 and 6,461 journal vouchers, also amounting to $2.4 trillion, in FY 2010.

DFAS Columbus accountants prepared journal vouchers both manually and using automated software routines. DFAS Columbus referred to journal vouchers prepared by automated software routines as system-prepared. System-prepared journal vouchers include regularly recurring adjustments to record accruals for receipt of goods and services, to reclassify certain maintenance costs between reporting groups, and to post opening and closing entries. For FY 2009, there were 2,919 system-prepared journal vouchers, with a debit value of $997.6 million.

The DoD FMR requires that journal vouchers be categorized using standard definitions. Table 1 summarizes the journal vouchers as categorized by DFAS Columbus related to FY 2009 Air Force budgetary reporting.

Table 1. Classification of FY 2009 Budgetary Journal Vouchers

Category	**Number of Journal Vouchers**	**Value** (billions)
Identified errors and reasonableness checks	387	$61.8
Reclassification of accounts	1,054	399.6
Balancing to internal reports	1	0.3
Data call entry	1,117	1,002.5
Recognition of undistributed disbursements and collections	1,252	7.1
Other accruals and reversals	2,096	64.7
Closing entries	253	532.1
Elimination balancing	17	11.6
Total	**6,177**	**$2,079.7**

[1] Journal vouchers adjust USSGL accounts and are self-balancing, as their debit amounts must equal their credit amounts. Value in the context of this report refers to the total of the applicable journal voucher debit amounts without regard to what USSGL accounts are affected.

We refined this population to remove journal vouchers that were duplicative or reversed within the same accounting period and stratified the refined population based on the categories in Table 1. From the resulting universe of 4,225 journal vouchers totaling $1.9 trillion, we selected a nonstatistical sample of 195 vouchers. We randomly selected 185 vouchers based on the size of each of the strata in the population and then selected the 10 highest dollar journal vouchers remaining in the universe, resulting in 195 journal vouchers selected for testing. We examined original documents to determine whether DFAS Columbus properly supported and properly approved the journal vouchers. Using our sample results, we reviewed the universe to identify similar journal vouchers and quantified the total value of unsupported adjustments associated with the additional journal vouchers that we identified. In this report, we discuss our sample results and also apply the sample results to other DFAS-prepared journal vouchers with similar discrepancies. See Appendix D for the list of journal vouchers tested.

DFAS Officials Did Not Have Adequate Accounting Processes

We determined that internal control weaknesses in Air Force controls over financial reporting existed as defined by DoD Instruction 5010.40, "Managers' Internal Control Program (MICP) Procedures," July 29, 2010. We identified internal control weaknesses as they relate to the audit objectives. Specifically, DFAS Columbus did not always support journal vouchers and adequate accounting processes to effectively reconcile the related budgetary accounts or to document an adequate detailed audit trail.
DFAS Columbus did not always obtain and reconcile the necessary transaction data as required by the DoD FMR and did not adequately observe controls to properly approve journal vouchers automatically prepared by GAFS-R (labeled "Auto-Approval Process"). In addition, the DFAS Columbus journal voucher template did not include written prompts in the "Description" input field to facilitate complete narrative explanations and more specific documentation in the journal voucher file, such as data sources and points of contact. We will provide a copy of the report to the senior official responsible for internal controls at DFAS.

Finding A. Forced Journal Voucher Adjustments Weaken the Reliability of Financial Reporting

DFAS Columbus accountants made forced journal voucher adjustments[2] for FY 2009 that lacked sufficient and appropriate documentation. DFAS Columbus officials did not have assurance of the validity and accuracy of the following forced adjustments to Air Force records:

- 8 journal vouchers, with a value of $85.9 million, to adjust the reimbursable obligations amount on line 8b of the SBR to match the reimbursable authority amount on line 3a of the SBR;

- 2 journal vouchers, with a value of $316 million, to adjust the total unexpended funds amount on the SBR to match the unexpended appropriations amount on the balance sheet;

- 4 journal vouchers, with a value of $3.3 billion, to change Air Force summary accounting records to match the amounts provided by the Government entities that purchased or sold the goods and services to Air Force entities;

- 1,437 journal vouchers, with a value of $6.8 billion, to make total disbursements and collections for Air Force appropriations match U.S. Treasury reports; and

- 229 journal vouchers, with a value of $527 billion, that adjusted and closed account balances for appropriated funds that were expiring and canceling, without research or analysis to resolve unexpected or abnormal balances.

These journal vouchers lacked sufficient and appropriate documentary evidence to support the adjustment because DFAS Columbus did not have adequate accounting processes in place to effectively obtain and reconcile the necessary transaction data as required by the DoD FMR. As a result, unsupported accounting adjustments could negatively affect the accuracy of the Air Force FY 2009 financial statements and budget reports. Without improving the auditability of these journal vouchers, DFAS Columbus will continue to cast doubt on the reliability of future financial statements and budget reports. The forced accounting adjustments also impeded DoD progress toward auditable financial statements, financial process improvement, and compliance with generally accepted accounting principles.

---

[2]An adjustment that forces agreement of general ledger balances to another accounting source without determining the transactional causes of the difference between the balances and if either is correct.

General Requirements for Journal Voucher Documentation

DoD issued regulations that set out requirements for journal voucher documentation and processes related to the preparation of journal vouchers. DoD FMR, volume 6A, chapter 2, paragraph 020204.B, sets out DFAS's responsibilities under reconciliation requirements.

> 1. DFAS shall establish procedures to ensure that all general ledger balances and other associated financial balances which require supporting subsidiary records are reconciled in accordance with DoD policy, when specifically required by OUSD(C) [Office of the Undersecretary of Defense (Comptroller)], with the amounts contained in the supporting records, including original source data.
>
> > a. Many of the supporting subsidiary records for the financial balance amounts are established and maintained by DFAS. DoD Components shall participate in the reconciliation process for these subsidiary records when the original source documents or transactions that require research to complete the reconciliation are retained by the DoD Component.
> >
> > b. When subsidiary records are maintained by the DoD Component, DFAS shall establish a reconciliation schedule, mutually agreed to by the DoD Component and subject to approval by the OUSD(C), to reconcile the subsidiary records with the financial balance. The reconciliation of such supporting records with the financial balance is a joint responsibility of DFAS and the DoD Component.
>
> 2. Unreconciled differences shall be investigated in accordance with applicable provisions of this Regulation and appropriate adjustments documented and processed to balance the general ledger amount with the amount of the subsidiary records.
>
> 3. When unreconcilable differences between the general ledger and the subsidiary ledger records exceed $1 million, reconciliations shall be performed on a monthly basis in order to determine the cause of the differences and to take appropriate corrective actions to ensure the accuracy and integrity of the accounting system and monthly reports.

Additionally, the DoD FMR addresses documentation requirements for journal vouchers in paragraph 020208.D. It states:

> Proper documentation, in hard copy, electronic form or a combination of both is necessary to support all journal voucher entries. This documentation shall contain sufficient information for the approving official and others, such as auditors, to clearly understand the reason for preparing the journal voucher, determine it is proper and accurate, and identify whether the journal voucher entries are supported or unsupported by subsidiary records. Information shall include applicable criteria to support the rationale for preparing the adjustment, specific expenditure or receipt accounts (if applicable), and the calculation of the dollar amount of the adjustment. Clear documentation of the JV preparer, approver(s), and reviewer must be kept with the JV documentation. Supporting documentation should be attached to a copy of the journal voucher.

Reimbursable Activity Adjustments Need Detailed Reconciliation of Budget Authority and Obligations

DFAS Columbus accountants made forced journal voucher adjustments for FY 2009 without properly reconciling reimbursable budget activity.[3] Specifically, DFAS did not support four sample journal vouchers we tested, with a value of $3.7 million, with detailed transaction information to determine the proper adjustment amounts to reimbursable authority and related obligations. DFAS did not investigate the difference between reimbursable authority and reimbursable obligations to reconcile the reported amounts and, instead, made these forced accounting adjustments at 2009 fiscal year-end to decrease the reimbursable obligation amount on line 8b of the SBR to match the reimbursable authority amount on line 3a of the SBR. Without appropriate supporting documentation, the forced adjustment may have resulted in misstated reimbursable obligations and authority. It also increased the risk that detailed transaction records did not fully support the balances reported in the financial statements and budget reports.

DFAS Columbus and Air Force accountants should have identified the specific transactions that reconciled the reported balances to make the appropriate adjustments. When Air Force components accept orders on a reimbursable basis, they are required to maintain accounting records for the reimbursable authority. In addition, the ordering activity is required to maintain accounting records for the associated obligations. The Assistant Secretary of the Air Force (Financial Management and Comptroller), Deputy Assistant Secretary for Financial Operations, Air Force Accounting and Finance Office, issued guidance requiring each component to review the status of its reimbursable orders. The guidance stated that each component should conduct end-of-year research to identify valid reimbursable authority and obligations. If authority or obligations for reimbursable orders are no longer valid, the component must adjust those amounts in the original entry system accounting records. The proper completion of this accounting process would result in equal amounts reported for total earned reimbursable authority and total reimbursable obligations in FY 2009 financial statements and budget reports.

Because of the deficiencies on our four sample items tested, we extended our audit procedures to review the universe of journal vouchers for similar adjustments. In total, DFAS Columbus accountants prepared eight journal vouchers (including our four sample items) in FY 2009, amounting to $85.9 million, in DDRS-B, DDRS-AFS, and GAFS-R to force the amount of reimbursable obligations to agree with the amount of reimbursable authority on the Air Force financial reports. DFAS accountants prepared these journal vouchers without making the

> *DFAS Columbus accountants prepared eight journal vouchers … in FY 2009, amounting to $85.9 million, … to force the amount of reimbursable obligations to agree with the amount of reimbursable authority on the Air Force financial reports.*

[3] Reimbursable budget activity includes the authorized funding available through orders from others and the obligations and expenditures incurred to provide goods and services to fill those customer orders.

detailed reconciliations between reimbursable authority and reimbursable obligations that were shown on draft SF 133, "Report on Budget Execution and Budgetary Resources."

Standard Financial System Edit Discrepancies Corrected Without Adequate Reconciliation

DFAS Columbus accountants used journal vouchers without adequate supporting documentation to correct a discrepancy between financial statements identified by a standard system edit check. Specifically, DFAS accountants made forced accounting adjustments for FY 2009 when they prepared two journal vouchers, with a value of $316 million, to adjust the total unexpended funds amount on the SBR to match the unexpended appropriations amount on the balance sheet. The DFAS pre-programmed standard edit checks appropriately recognized that the total unexpended appropriations reported in the SBR did not match the total unexpended funds reported in the balance sheet. However, DFAS accountants did not investigate this difference or request Air Force accountants to investigate and resolve why these totals did not agree. DFAS accountants resolved the difference of $316 million by preparing the two journal vouchers to force agreement between the SBR and the balance sheet. However, DFAS did not investigate and document a reconciliation of the differences; and therefore, it did not have assurance of the validity or auditability of the journal voucher adjustment because it lacked sufficient supporting documentation and an adequate detailed audit trail to any underlying transaction data.

DFAS accountants resolved the difference of $316 million by preparing the two journal vouchers to force agreement between the SBR and the balance sheet.

During the audit, DFAS management acknowledged that forced adjustments for unexpended balances have occurred. DFAS management stated that it was addressing this issue and had reduced the forced adjustments to Air Force General Fund unexpended balances from approximately $5 billion in FY 2008 to the $316 million above. The audit did not include tests to verify this reduction.

Nonidentification of Trading Partners Resulted in Recording Unverified Intragovernmental Accounts Receivable and Payable

For FY 2009, DFAS Columbus accountants made forced journal voucher adjustments for intragovernmental trading partner activity that lacked sufficient and appropriate supporting documentation. Specifically, DFAS Columbus lacked assurance that four journal vouchers, amounting to $3.3 billion, were valid. The journal vouchers changed Air Force summary accounting records to match the amounts provided by the U.S. Government entities that sold the goods and services to Air Force entities. DFAS Columbus accountants prepared the journal vouchers without a detailed reconciliation of the trading partner balances because neither the Air Force nor DFAS maintained adequate subsidiary records.

We reviewed the supporting documentation for the four journal vouchers, totaling $3.3 billion, in DDRS-AFS that DFAS prepared to adjust the account balances of the buying agency to the account balances of the selling agency. For one of the four journal vouchers, DFAS Columbus accountants used the balances of advances reported as unearned by performing agencies without verifying their validity ($699 million in an amended report) to record Undelivered Orders–Obligations, Prepaid (budgetary account equivalent to prepayments and advances) in Air Force records. In a second example, DFAS Columbus accountants used the balances reported by other DoD entities for accounts receivable due from Air Force without verifying their validity to increase Air Force Delivered Orders-Obligations, Unpaid (budgetary equivalent to accounts payable) by $2.5 billion. DFAS accountants did not analyze or verify the balances reported by other agencies to determine whether original transactions supported the journal vouchers. In addition, neither the Air Force nor DFAS Columbus maintained other subsidiary records to enable reconciling intragovernmental receivable and payable amounts based on verified deliveries of goods and services by performing agencies. Because of the lack of controls over intragovernmental trading partner activity, the Air Force did not have assurance that its financial reporting of related advances receivable and accounts payable were reliable.

Because of the lack of controls over intragovernmental trading partner activity, the Air Force did not have assurance that its financial reporting of related advances receivable and accounts payable were reliable.

DoD reporting entities are required to report accurate intragovernmental account balances in their financial statements, which ensures the appropriate eliminations in the consolidated financial statements. Despite requirements to properly account for such balances and to reconcile differences that exist at financial statement reporting dates, the DoD FMR acknowledges that DoD component legacy accounting systems do not adequately identify sales and purchases between DoD components and Government agencies, which would allow components to meet those requirements.

The DoD FMR, volume 6B, chapter 13, states a presumption that, for intra-DoD accounts receivable, revenue, and advances from others (unearned revenue), the amounts reported by the seller are more accurate than the corresponding amounts reported by the buyer. DFAS relied on that presumption when it prepared journal vouchers to adjust Air Force intragovernmental account balances to match the balances provided by sellers. Although DoD FMR allows for this presumption, its provisions do not provide assurance that such seller balances are accurate without reconciliation to actual transaction activity. DFAS Columbus needed better analysis and coordination with the Air Force components to overcome the legacy system weaknesses that DoD acknowledges with trading partner activity.

During the audit, DFAS management stated that the Air Force and DFAS identified trading partner adjustments as unsupported in quarterly metric reports. DFAS management also stated that the Air Force took corrective actions to match Air Force-related buyer and seller transactions. Specifically, the actions include

Air Force systemic improvements and other DFAS and Air Force plans to match Air Force-related buyer and seller transactions. These actions were ongoing at the time of our audit; and therefore, we could not test their effectiveness. DFAS should continue to work with the Air Force to fully reconcile trading partner activity.

Detailed Transaction Support for Undistributed Disbursement and Collection Journal Vouchers Required Improvement

DFAS Columbus accountants made forced journal voucher adjustments for FY 2009 so that Air Force and U.S. Treasury Fund Balance with Treasury amounts matched. Specifically, our sample selection included 40 journal vouchers, amounting to $73 million, that DFAS personnel prepared to match Air Force and U.S. Treasury totals. We reviewed the documentation for these journal vouchers.

DFAS personnel prepared the 40 journal vouchers to adjust Air Force accounting records for undistributed disbursements and collections. Undistributed disbursements and collections are differences in cash disbursements and collections reported to the Air Force and reported to the U.S. Treasury. Some of the differences are caused by the following: cash items in transit between Air Force and U.S. Treasury records, cash items held in suspense pending proper accounting classification, and cash items rejected during system processing as not recorded in either Air Force or U.S. Treasury accounting records. However, DFAS Columbus accountants did not prepare reconciliations that identified undistributed cash items in detail; instead, they determined the journal voucher adjustments as the difference between total disbursement and collection amounts reported by appropriation to the Air Force by the U.S. Treasury.

Based on the results of our sample testing, we reviewed the FY 2009 journal voucher universe for similar adjustments. DFAS Columbus accountants prepared 1,437 journal vouchers (including the 40 in our sample), with a value of $6.8 billion, to make total disbursements and collections for Air Force appropriations match U.S. Treasury reports. DFAS accountants stated that the process for preparation of journal vouchers to record undistributed disbursements and collections was consistent throughout FY 2009.

The DoD FMR, volume 6A, chapter 2, paragraph 020208, D.4, states that:

> Recognition of Undistributed Disbursements and Collections. Entries shall be made to adjust Fund Balance with Treasury, as reported, for the amount of supported undistributed disbursements and collections reported in the departmental expenditure system. The proper supporting documentation for this type of journal voucher consists of identifiable amounts that are in transit from other sources (such as DFAS or Federal agencies). Many amounts at the detailed transaction level are not available due to timing differences, and support consists solely of transmitted sums. In such a case, evidence available to support the journal voucher consists of summarized transmittal amounts. However, for audit trail purposes, the detailed transaction level amounts shall be obtained from the transmittal source when the amounts become available. Further evidence includes documentation of procedures and the allocation process used to apply undistributed disbursements and collections to accounts payable and accounts receivable, respectively.

DFAS prepared journal vouchers that forced agreement between the Air Force and U.S. Treasury records without detailed transaction support or detailed reconciliation because DFAS lacked adequate controls to identify and obtain all Air Force disbursements and collections or to reconcile Air Force totals to U.S. Treasury totals at the detailed transaction level. Without these controls, DFAS did not have assurance that its related financial reporting for the Air Force was reliable. DFAS needed to improve its processes for capturing the appropriate detailed transactions to reconcile Air Force funds with U.S. Treasury balances.

Accounts for Expiring and Canceling Appropriations Were Adjusted and Closed With Unresolved Abnormal or Unexpected Balances

DFAS Columbus accountants adjusted FY 2009 expiring and closing Air Force appropriations without sufficient and appropriate documentation. Specifically, we reviewed 12 journal vouchers that adjusted expiring and closing appropriations. We identified unexpected or abnormal account balances for 9 of the 12 expiring and canceling appropriations that DFAS adjusted. DFAS accountants did not research and analyze the unexpected or abnormal balances to resolve them.

For example, one of the journal vouchers that DFAS prepared for canceling appropriations forced an unexpected balance of $128 million in the Undelivered Orders-Prepaid account to zero and increased the Delivered Orders–Paid account by that amount. This journal voucher lacked documentation to support the conclusion that the Air Force actually received the prepaid goods or services. DFAS should have analyzed the $128 million balance to ensure that the Air Force received the related goods and services and the prepaid balance was not refundable to the Air Force.

This journal voucher lacked documentation to support the conclusion that the Air Force actually received the prepaid goods or services.

In another example, accountants at DFAS Columbus did not document any research or analysis to explain an automated journal voucher that closed a canceling appropriation by decreasing the canceled authority account by $347 million and increasing the allotments-expired authority account by that amount. The closing of a canceling appropriation would normally increase the amount of canceled authority. DFAS accountants should have performed the necessary research to determine that the $347 million was not an overexpenditure of funds.

The DoD guidance for the closing process, DoD FMR, volume 3, chapter 10, paragraph 100201.D., "Accounting Requirements for Expired and Canceled Accounts, Policy and Procedures," states that:

> Before an account closes/cancels, the affected DoD Component shall identify valid unliquidated obligations subject to cancellation to determine if appropriations are available for future adjustments or payments against such obligations. Also the DoD

> Component must confirm whether provisions for adequate resources have been made to pay for such obligations that will close/cancel with an account.

Further, the DoD 4th Quarter, "FY 2009 Financial Reporting Guidance," Section 406, "Canceled Receivables and Payables," states that:

> The Federal Accounting Standards Advisory Board, U.S. Treasury and DoD FMR require that all DoD entities properly manage their canceled Accounts Receivable and Accounts Payable. As is the expectation with accounts receivable and payable from unexpired appropriations, accounts receivable and payable from canceled appropriations must also be fully supported by and reconciled to subsidiary records. These balances should be maintained in the subsidiary ledgers of the accounting systems where possible, or maintained offline where legacy systems do not provide the capability, and components must ensure that balances are properly reflected within the financial statements.

Based on our sample results, we reviewed the FY 2009 journal voucher universe for additional adjustments that closed other expiring or canceling appropriations. DFAS accountants prepared 229 journal vouchers, with a total of $527 billion (including our 12 sample items), for Department-level pre- and post-closing entries that adjusted account balances for expiring and canceling funds at fiscal year-end. All 229 journal vouchers, including our sample items, were system-prepared. To comply with DoD FMR requirements and because the adjustment amounts related to expiring and canceling appropriated funds were significant, DFAS Columbus needed to perform the necessary research and analysis of unexpected or abnormal balances and properly document its results when closing such accounts. Specifically, DFAS needed to ensure that such balances were not the result of errors that would affect the reliability of current budgetary reporting.

Conclusion

When DFAS Columbus accountants made journal voucher adjustments to Air Force accounting records that forced agreement for financial reporting without reconciliation to specific accounting events and transactions, they weakened the reliability of Air Force financial statements and budget reports. Additionally, DFAS accountants may have missed opportunities to advance Air Force General Fund SBR audit readiness efforts because they did not make needed progress in fully explaining and reducing variances between Air Force general ledger balances and associated detailed transaction amounts or expected SBR balances.

When DFAS accountants prepared forced adjustments that gave the appearance of compliant financial reporting despite weaknesses in internal control over financial reporting, they did not fully support efforts toward financial improvement and audit readiness, including compliance with generally accepted accounting principles. The forced adjustments to Air Force accounting records without reconciliations or analysis of source documentation did not comply with the DoD FMR policy that requires additional effort when DFAS adjusts the accounting records. DFAS needed to improve its processes so that journal voucher amounts were verifiable and forced adjustments were eliminated.

Recommendations, Management Comments, and Our Response

A. We recommend that the Director, Defense Finance and Accounting Service Columbus:

1. Implement accounting procedures required by the "DoD Financial Management Regulation," volume 6A, chapter 2, paragraph 020204.B., for each of the forced journal voucher adjustments discussed in this report. Those procedures should require that:

a. all general ledger and other associated financial balances that require supporting subsidiary records are reconciled to those records;

b. unreconciled differences are resolved by identifying specific reconciling transactions to support appropriate journal voucher adjustments; and

c. DFAS coordinate with Air Force entities when the Air Force maintains the original source documents or transactions that require research to reconcile the balances.

Defense Finance and Accounting Service Columbus Comments

The Director, DFAS Columbus, agreed and has taken several actions to continue to improve reconciliations in support of journal vouchers. He established a team in February 2011, which implemented a standard operating procedure based on best practices for reconciling abnormal balances. The procedure includes providing details of account differences to the Air Force monthly for research and resolution. He also prepared a memorandum of agreement with the Air Force, which was to be in effect for FY 2011 year-end, to define the methodology and authority for DFAS to prepare journal vouchers to reconcile unfilled orders and reimbursable obligations when detailed transactions are unavailable.

Further, the Director stated that DFAS Columbus would continue to reduce the unreconciled variance between budgetary and proprietary unexpended appropriations by identifying the root causes, but until legacy systems are corrected, would continue to record the journal vouchers necessary to bring these amounts into agreement for financial reporting. He also stated that DFAS Columbus would continue to work with the Air Force and its customers to identify proper trading partner amounts, but as required by the DoD FMR, would make transactions to record seller-side balances in Air Force financial statements until field accounting systems capture trading partner detailed transactions for reconciliation. Beginning in FY 2012, DFAS Columbus and the Air Force were to implement the Columbus Cash Accounting System reconciliation tool in support of Fund Balance with Treasury adjustments. Management expects to implement all of its planned corrective actions no later than February 1, 2012.

Our Response

The actions implemented by DFAS Columbus management with regard to forced journal vouchers to bring account balances into agreement without full and complete reconciliations will continue to reduce the unreconciled variances. These actions are a beginning to improvements needed to support audit readiness efforts for Air Force and to continue implementing accounting processes that will resolve unreconciled differences for financial reporting. The actions and plans described by management were responsive and met the intent of our recommendation.

2. Implement the accounting process required by the "DoD Financial Management Regulation," volume 3, chapter 2, paragraph 100201.D., which requires that before preparing journal vouchers by automated programming routines to close fiscal year-end balances, DFAS accountants research and adjust unexpected and abnormal balances for expiring and canceling appropriated funds.

Defense Finance and Accounting Service Columbus Comments

The Director, DFAS Columbus, agreed and implemented a standard operating procedure that requires research of abnormal or unexpected account balances and includes notifying the Air Force. Management's review identifying unexpected and abnormal balances will be analyzed monthly.

Our Response

DFAS Columbus management actions to capture unexpected or abnormal balances for canceling years on a monthly basis and review and research such balances for resolution were responsive and met the intent of our recommendation.

Finding B. Audit Trails Require Improvement to Support Audit Readiness

Audit trails to support the compilation of the FY 2009 Air Force General Fund SBR were not adequate. Specifically:

- DFAS Columbus accountants did not document an adequate audit trail for 89 journal vouchers in our sample, amounting to $169.7 billion, which resulted in 208 audit trail-related deficiencies.[4]

- DFAS Columbus personnel did not document a reconciliation that explained cumulative variances of $5 billion between the final general ledger balances in the GAFS-R system and the final general ledger balances in the DDRS-B reporting system.

The 89 journal vouchers in our sample that DFAS accountants prepared to compile the SBR lacked an adequate audit trail because DFAS Columbus did not design its journal voucher template to clearly require all the information needed to comply with the DoD FMR. Specifically, the DFAS Columbus template did not include adequate written prompts in the "Description" input field to facilitate complete narrative explanations and more specific documentation in the journal voucher file, such as data sources and points of contact.

The lack of adequate audit trails between the GAFS-R system and the DDRS-B reporting system occurred because DFAS did not have a process to identify and document the significant differences between the USSGL account balances in each system. During our audit, DFAS accountants were unable to provide a detailed explanation for the differences. As a result, DFAS did not fully support Air Force audit readiness efforts.

Following receipt of a preliminary copy of this report provided for discussion purposes, DFAS personnel took action to research the $5 billion discrepancy between DDRS-B and GAFS-R and provided supporting documentation that explained approximately $4.858 billion of the $5 billion difference.

---

[4] The total identified deficiencies are greater than 89 journal vouchers because some journal vouchers included more than one deficiency.

Requirements for Audit Trails

The DoD FMR, volume 6A, chapter 2, paragraph 020203, states that:

> B. DFAS. DFAS shall ensure that a complete and documented audit trail is maintained to support the reports it prepares. Supporting documents or images should be retained by the organization that translates the information into an electronic mode. Internal controls shall be in place to ensure that the transactions are:
>
> 1. edited for accuracy and completeness.
> 2. controlled from unauthorized access and use.
> 3. identified, tracked, and controlled to ensure that the numbers, types, and dollar amounts are complete.
> 4. authorized and approved by duly designated officials.

Additionally, the following paragraph of the DoD FMR, volume 6A, chapter 2, paragraph 020204, prescribes responsibilities for reconciliation:

> Reconciliation. Many financial balances (e.g., general ledger proprietary and budgetary accounts, such as assets, liabilities, commitments, and undelivered orders) require supporting subsidiary records to validate the amount of the financial balance. Such subsidiary records shall be reconciled to financial balances in accordance with the policies, requirements, and frequencies prescribed in this Regulation.

Further, the DoD FMR, volume 6A, chapter 2, paragraph 020206.B, adds: "DFAS shall validate reports to ensure that the reported amounts agree with the official accounting records prior to release to DoD Components for review and approval or release to external recipients."

Adequately Documented Journal Voucher Audit Trails Needed

DFAS Columbus journal voucher audit trails for the compilation of the FY 2009 SBR did not comply with the requirements of DoD FMR, volume 6A, chapter 2. Specifically, DFAS Columbus accountants did not document an adequate audit trail for 89 journal vouchers in our sample that they prepared to support the SBR compilation. The 89 journal vouchers amounted to $169.7 billion and included the following 208 audit trail-related deficiencies (some journal vouchers had multiple deficiencies):

- 65 deficiencies related to inadequate descriptions that resulted in insufficient information for approving officials to clearly understand the reason for preparing the journal voucher and determine whether it was proper and accurate;

- 46 deficiencies occurred because the journal voucher lacked a clear indication of the calculation methodology that DFAS accountants used;

- 12 deficiencies occurred because DFAS accountants prepared the journal voucher without an attached copy of the original journal voucher that was corrected;[5] and

- 85 deficiencies occurred because DFAS accountants did not adequately reference the supporting documentation. Specifically, DFAS accountants did not complete the narrative on the journal voucher so that it identified key supporting documents or their location and a point of contact.

The 89 journal vouchers in our sample that DFAS accountants prepared to compile the SBR lacked an adequate audit trail. The audit trail was lacking because DFAS Columbus did not design its journal voucher template to specifically require all the information needed so DFAS accountants could comply with the DoD FMR. Specifically, the DFAS Columbus template did not include adequate written prompts in the "Description" input field to facilitate complete narrative explanations and more specific documentation in the journal voucher file, such as data sources and points of contact.

DFAS Columbus accountants should always provide adequately detailed descriptions when preparing journal vouchers to allow approving officials and others to readily understand the purpose of the adjustment as well as any supporting documents. In addition, they should attach clear documentation of detailed calculations supporting the adjustment amount and adequately reference source documentation to strengthen the detailed audit trail. These improvements will help DFAS comply with the DoD FMR requirements and improve the compilation process for the Air Force General Fund SBR.

Incomplete Audit Trail From General Ledger to SBR

Audit trails to support the compilation of the FY 2009 Air Force General Fund SBR needed improvement. Specifically, DFAS Columbus personnel lacked procedures to reconcile and explain cumulative variances of $5 billion between the final general ledger balances in the GAFS-R system and the final SBR financial statement balances in the DDRS-B reporting system.

The $5 billion cumulative variance affected 12 USSGL accounts. DFAS Columbus personnel were unable to explain the variances, such as identifying journal vouchers that included adequate supporting documentation or identifying the specific reconciling transactions.

The DoD FMR requires DFAS to reconcile financial reports from the subsidiary accounting records to the financial statement balances and maintain a complete audit trail. A complete audit trail is necessary to demonstrate the accuracy, completeness, and

[5] For correcting journal vouchers, a copy of the original journal voucher, documentation supporting the correct amount, and a narrative explanation of how it is known that the original entry is incorrect and why the correcting entry is more accurate must be attached.

timeliness of transactions. Further, DFAS is responsible for ensuring that it identifies variances between its accounting and reporting systems and maintains evidence that it performs an overall reconciliation.

During our audit, DFAS accountants were unable to provide details to explain the differences or provide us with a detailed reconciliation. Because DFAS Columbus did not provide a complete reconciliation between the two systems, we initially concluded the Air Force did not have assurance that its general ledger balances reliably supported its SBR reporting as of September 30, 2009. The Management Actions section below discusses the DFAS response to the audit results.

The lack of a process to specifically identify and document account balances for canceling appropriations that were retained in the GAFS-R system but not carried forward to the DDRS-B reporting system contributed to DFAS's inability to provide an adequate audit trail. DFAS Columbus should program the accounting interface between GAFS-R and DDRS-B to document the effect of these balances and support a reconciliation between the two systems. With such a reconciliation process in place, DFAS Columbus accountants would have been able to resolve a significant dollar amount of the differences in the audit trail from GAFS-R to DDRS-B during our audit.

Management Actions

Following receipt of a preliminary copy of this report provided for discussion purposes, DFAS personnel took action to research the $5 billion discrepancy between DDRS-B and GAFS-R and provided supporting documentation that explained approximately $4.858 billion of the $5 billion difference. After the issuance of the draft report, DFAS completed the FY 2009 reconciliation that explained the remaining difference of approximately $137 million.

Conclusion

DFAS needed to provide more support for Air Force General Fund SBR audit readiness efforts. DFAS Columbus needed improved compliance with the DoD FMR because its accountants, who prepared journal vouchers, and management, who approved those vouchers, did not always ensure or enforce that the related audit trails met the existing DoD FMR, volume 6A, chapter 2, requirements. In addition, journal vouchers lacked one or more required elements of an adequate detailed audit trail.

DFAS Columbus should maintain a documented reconciliation between the final GAFS-R general ledger balances and the DDRS-B general ledger balances. DFAS Columbus accountants were unable to provide a complete reconciliation between the balances in the GAFS-R general ledger and the DDRS-B general ledger as of September 30, 2009. Their inability to reconcile the general ledgers was a material weakness in internal control over financial reporting for FY 2009 and contrary to the support that the Air Force needed to assert SBR audit readiness. In addition, DFAS missed an opportunity to make needed progress in fully explaining and possibly reducing variances between the Air Force general ledger balances and reported SBR amounts.

Recommendations, Management Comments, and Our Response

B. We recommend that the Director, Defense Finance and Accounting Service Columbus:

1. Modify the standard journal voucher template, with narrative prompts to ensure that journal voucher documentation includes:

a. a clear description explaining the reason for the journal voucher that demonstrates that the journal voucher is proper and accurate;
b. a clear indication of the calculation methodology used in determining the journal voucher amounts;
c. a narrative explanation for correcting journal vouchers that includes comments about why the original entry is incorrect and why the correcting entry is more accurate; and
d. adequate references to supporting documentation, including specific identification of documents, their location, and a point of contact.

Defense Finance and Accounting Service Columbus Comments

The Director, DFAS Columbus, agreed and stated that DFAS Columbus created a catalogue of standardized narratives that comply with the DoD FMR to assist accountants in providing a complete explanation, preparation methodology, and standard documentation when preparing journal vouchers.

Our Response

We have reviewed the catalogue of standard narratives developed by DFAS Columbus and agree that the use of the catalogue together with the standard journal voucher template will provide preparers strengthened support to more fully document the necessary detailed audit trail. Management's actions were responsive and met the intent of our recommendation.

2. Require a documented reconciliation between the systems at fiscal year-end and explanation of differences that exist between general ledger accounts.

Defense Finance and Accounting Service Columbus Comments

The Director, DFAS Columbus, agreed and stated that a manual reconciliation between the GAFS-R trial balances and the DDRS trial balances would be performed by February 1, 2012.

Our Response

After we issued our draft report, DFAS Columbus accountants provided additional documentation to support a complete reconciliation of the trial balances as of September 30, 2009. Management's actions and plans were responsive and met the intent of our recommendation.

Finding C. More Stringent Adherence to the DoD FMR Requirements for Journal Voucher Approval Is Needed

DFAS Columbus needed to improve its documentation of supervisory review and approval for Air Force journal vouchers posted in GAFS-R. Specifically, DFAS Columbus processed:

- 698 journal vouchers, amounting to $77.9 billion, without management documenting its supervisory review and approval as required by the DoD FMR; and

- 172 journal vouchers, amounting to $799.6 billion, that management approved but not at the appropriate level required by the DoD FMR.

The 698 journal vouchers lacked documentation of appropriate supervisory review because DFAS policy did not require supervisory approval of journal vouchers automatically prepared by GAFS-R (labeled "Auto-Approval Process"). The 172 journal vouchers lacked an appropriate level of supervisory approval because DFAS management considered them routine beginning-of-year and end-of-year entries that did not warrant higher level review and approval. As a result, DFAS accountants posted journal vouchers into the accounting records without evidence of approval by the appropriate management level. During the audit, the Director, DFAS Columbus, issued a memorandum that established a review team to address the auto-approval of journal vouchers prepared by GAFS-R.

Journal Voucher Approval Guidance

DoD FMR, volume 6A, chapter 2, requires operational internal controls to be in place to ensure the proper recording of journal vouchers. The controls are to be in place whether journal vouchers are prepared manually or by a routine in the accounting system. All journal vouchers are to be sequentially numbered, maintained in a central location in either hardcopy or in an electronic form, and annotated with name, title, and office symbol of both the preparer and approving official. Additionally, the DoD FMR requires that an appropriate management level authorize and approve journal vouchers at certain dollar thresholds. Table 2 indicates which management level must approve journal vouchers, depending on their dollar amount.

The DoD FMR also requires management at each level to maintain adequate internal controls to ensure proper oversight of journal voucher preparation. In addition, a quarterly quality and compliance review of a sample of journal vouchers by the Director of Accounting and Finance is required within 30 days after DFAS Columbus submits quarterly reports to USD(C)/CFO. This review is to determine whether journal vouchers are correctly prepared and processed, adequately described and supported, and approved at the proper managerial level.

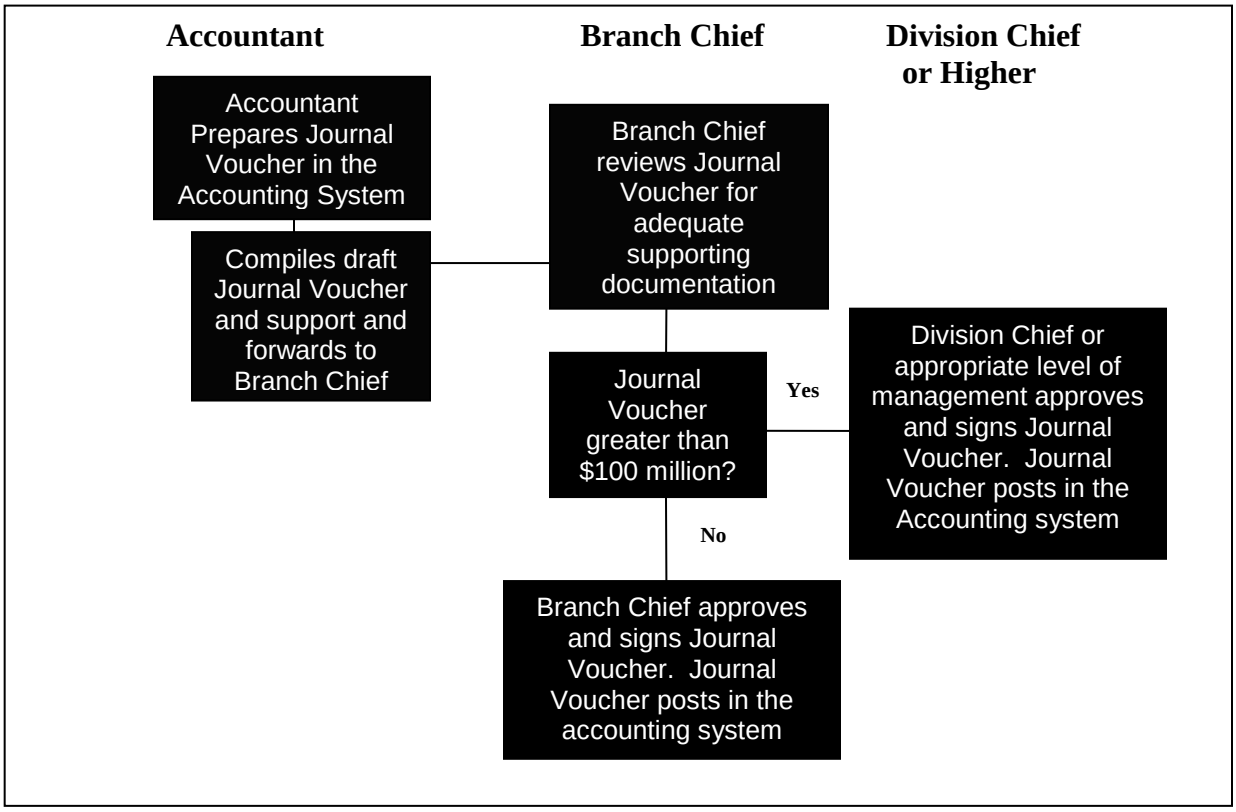
Table 2. DoD FMR Supervisory Approval Threshold for Journal Vouchers

Dollar Amount	Supervisory Approval Level
Less than $100 million	Branch Chief
More than $100 to $500 million	Division Chief
More than $500 million to $1 billion	Director, Accounting and Finance, DFAS Columbus
More than $1 billion	Director, DFAS Columbus, or Designee

Standard Journal Voucher Approval Process at DFAS Columbus

When DFAS Columbus accountants prepared and entered journal vouchers into the accounting records for the Air Force in the GAFS-R, DDRS-B, and DDRS-AFS accounting systems, the vouchers included the accountant's digital signature. In some instances, automated software routines in GAFS-R prepared journal vouchers, in which case the accounting system annotated the vouchers as prepared by the "System." For two categories, the accounting system posted the system-prepared journal vouchers in GAFS-R and annotated these journal vouchers as approved by "Auto-Approval Process." Figure 1 shows the journal voucher approval process.

Figure 1. Journal Voucher Approval Flowchart



DFAS policy requires DFAS Columbus accountants to attach supporting documentation to all journal vouchers and forward the packages to the Branch Chief. The Branch Chief is responsible for ensuring that there is proper supporting documentation before approving those vouchers in the accounting system. If the amount of the journal voucher is greater than $100 million, the Branch Chief coordinates the approval of the vouchers, either by electronic or physical signature, with the applicable level of management (see Table 2). According to DFAS policy, the Branch Chief is to enforce the regulatory requirement to review approvals within 10 workdays after financial reports are prepared.

Journal Vouchers Without Appropriate Supervisory Approval

DFAS Columbus needed to improve its documentation of supervisory review and approval for Air Force journal vouchers posted in GAFS-R. Specifically, DFAS Columbus processed 698 journal vouchers, amounting to $77.9 billion, for which management had not documented its supervisory review and approval as required by the DoD FMR. These were system-prepared journal vouchers that were automatically posted in GAFS-R with the notation "Auto-Approval Process." Additionally, DFAS accountants processed 172 journal vouchers, amounting to $799.6 billion, that management approved, but not at the appropriate level as required by the DoD FMR.

> *Specifically, DFAS Columbus processed 698 journal vouchers, amounting to $77.9 billion, for which management had not documented its supervisory review and approval as required by the DoD FMR.*

DFAS personnel did not document appropriate supervisory review of the 698 journal vouchers because DFAS policy did not require supervisory approval of journal vouchers automatically prepared by GAFS-R and labeled "Auto-Approval Process." DFAS personnel did not obtain the appropriate level of supervisory approval for 172 system-prepared journal vouchers because DFAS management considered them routine entries.

No Approval Obtained

DFAS Columbus accountants prepared and recorded journal vouchers that lacked any evidence of supervisory approval. We reviewed 195 randomly selected journal vouchers posted in GAFS-R and identified 19 journal vouchers that did not include appropriate details of supervisory review and approval in compliance with the DoD FMR guidance. The journal vouchers lacked proper authorization because they were auto-approved by the system. Based on these results, we performed a review of the remaining journal vouchers in the universe and identified 679 additional auto-approved journal vouchers. Combined, these 698 auto-approved journal vouchers totaled $77.9 billion. These journal vouchers consisted of two types of adjustments. One type was to accrue accounts payable received by electronic interface and the second type was to reallocate funding between subactivity groups.

DFAS should not approve journal vouchers through automated routines and should require review and approval by an appropriate supervisor. Although the DFAS Columbus Division Chief signed a memorandum each month certifying that the DFAS departmental accounting division processed journal vouchers equal in amount to the interfaced accrued accounts payable, that certification was not a specific approval of each journal voucher as required by the DoD FMR. Additionally, DFAS Columbus policy did not specifically require that a supervisor review and approve the GAFS-R system-prepared journal vouchers in accordance with the DoD FMR. Journal vouchers auto-approved by GAFS-R do not comply with the DoD FMR guidance, which requires that each journal voucher contain the name, title, and office symbol of the approver.

Approved at Incorrect Level

DFAS Columbus also prepared and recorded system-prepared journal vouchers that lacked approval by the required management level. A higher supervisory level of approval was required because the total journal voucher amount exceeded the DoD FMR threshold of $100 million for Branch Chief approval.

Our nonstatistical sample included journal vouchers that DFAS Columbus management approved at a lower level than required by the DoD FMR guidance. Specifically, there were seven journal vouchers, totaling $215.4 billion, approved by the DFAS Columbus Departmental Accounting Branch Chief that required approval by a higher supervisory level. The seven system-prepared journal vouchers either established opening FY 2009 balances from the accounts that carried forward from the prior fiscal year or closed out current FY 2009 balances at fiscal year-end in accordance with Treasury Financial Manual guidance. The Branch Chief should have recognized that even though these entries were system-prepared and regarded as routine, they required approval by a higher management level.

> *Specifically, there were seven journal vouchers, totaling $215.4 billion, approved by the DFAS Columbus Departmental Accounting Branch Chief that required approval by a higher supervisory level.*

We reviewed the journal voucher universe for similar instances of these system-prepared entries posted in the system and identified an additional 165 journal vouchers, amounting to $584.2 billion, that DFAS had not approved at the appropriate level of DFAS Columbus management. DFAS personnel did not obtain the appropriate level of supervisory approval for 172 journal vouchers because DFAS management considered them routine beginning-of-year and end-of-year entries.

As shown in Table 3, DFAS did not appropriately approve $877.5 billion in journal vouchers. DFAS Columbus management did not comply with the DoD FMR guidance and did not ensure the review and approval of all journal vouchers posted into the accounting records.

Table 3. Journal Vouchers Lacking Appropriate Supervisory Approval
($ billions)

Type of Entry	Sample Items		Additional Universe Items Identified		Total	
	Amount	**Count**	**Amount**	**Count**	**Amount**	**Count**
No Approval	$9.2	19	$68.7	679	$77.9	698
Not Approved at Appropriate Level	215.4	7	584.2	165	799.6	172
Total	**$224.6**	**26**	**$652.9**	**844**	**$877.5**	**870**

Management Actions

During the audit, the Director, DFAS Columbus, issued a memorandum that established a review team to address GAFS-R journal voucher approval. The memorandum required the review team to work until corrective actions were completed. The Director also required the review team to provide DFAS senior leadership with weekly progress updates. DFAS management provided additional information on its actions regarding journal voucher approval in their comments on a draft of this report (see pages 25 and 26).

Conclusion

DFAS Columbus management did not always adhere to the DoD FMR requirements for the approval of journal vouchers posted into the Air Force accounting records. There was no assurance that the required level of DFAS Columbus management reviewed and approved 870 journal vouchers, amounting to $877.5 billion, or that the DFAS Director of Accounting and Finance performed the required review of these adjustments within the prescribed 30-day period after quarterly reports were submitted to USD(C)/CFO. By ensuring the appropriate level of review and approval for all journal vouchers, DFAS Columbus management would improve its oversight and ensure the propriety of accounting adjustments posted into the accounting records and improve its compliance with the DoD FMR guidance.

DFAS Columbus management issued a memorandum that directed a review team to review journal vouchers automatically prepared and approved by GAFS-R. The DFAS review team should consider our audit results and recommendations as it completes its analysis of the Air Force General Fund vouchers.

Recommendations, Management Comments, and Our Response

Revised Recommendation

As a result of a change to the DoD FMR, volume 6A, chapter 2, in August 2011, we revised draft Recommendation C.2 to be consistent with the revised regulation.

C. We recommend that the Director, Defense Finance and Accounting Service Columbus:

1. Eliminate the "Auto-Approval Process" routine in the General Accounting Finance System-Rehost to ensure that each journal voucher posted into the accounting system bears evidence of actual supervisory review and approval.

Defense Finance and Accounting Service Columbus Comments

The Director, DFAS Columbus, partially agreed, stating that DFAS Policy and Support reviewed the auto-approved journal voucher forms discussed in our report and concluded that those adjustments that reallocated funding between subactivity groups were not journal vouchers based on their interpretation of the DoD FMR. In addition, the Director stated that it was not cost-effective to revise the journal voucher module in GAFS-R. However, DFAS has developed a mass approval memorandum for these adjustments since they are recorded in the journal voucher log. The Director further stated that the second type of auto-approved journal voucher forms discussed in our report–journal vouchers that accrued accounts payable–would be removed from the auto-approval process and undergo manual supervisory review.

Our Response

DFAS Columbus recorded auto-approved adjustments to reallocate funding between subactivity groups on standard journal voucher forms. Whether we agree or disagree that such adjustments are technically journal vouchers was not the underlying issue related to our recommendation. Our recommendation is to ensure that adjustments made to original transaction activity in the accounting system are properly controlled by an appropriate official designated by management.

DFAS Columbus should control all adjustments to financial data when those adjustments are its responsibility. The results of any adjustments to financial data at the departmental level under DFAS Columbus oversight should be controlled for propriety whether entered by automated software or manual processes.

We considered management's plans to implement the mass approval memorandum for these auto-approved adjustments and the change to the DoD FMR, volume 6A, chapter 2, effective August 2011. We determined that the mass approval memorandum represents an appropriate supervisory review at this level of accounting. Together with the change

to perform manual supervisory review for the adjustments to accrue accounts payable, management's actions are responsive and met the intent of our recommendation.

2. Verify that the quarterly quality and compliance review performed by the Director of Accounting and Finance within 30 days after Defense Finance and Accounting Service Columbus submits quarterly reports to the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, includes system-prepared journal vouchers to confirm that approval thresholds were met.

Defense Finance and Accounting Service Columbus Comments

The Director, DFAS Columbus, partially agreed, but maintained that the auto-approved and system-generated adjustments on journal voucher forms were not journal vouchers based on the DFAS interpretation of the DoD FMR. The Director stated that these adjustments were prepared on journal voucher forms strictly because of limitations in the legacy accounting systems.

Our Response

We revised the recommendation because the DoD FMR, volume 6A, chapter 2, paragraph 020208, requirements changed after we issued our draft audit report. Specifically, the journal voucher review requirements changed from annually to quarterly, and from 10 days after the financial statements are prepared to 30 days after the submission of quarterly financial statements to USD(C)/CFO.

Considering the revisions to the DoD FMR, we request that DFAS Columbus management reconsider its response to the recommendation and provide additional comments on this report. To meet the intent of our recommendation, the comments should demonstrate that all adjustments will be included in the required review by the Director for Accounting and Finance in accordance with the applicable DoD FMR threshold requirements.

Appendix A. Scope and Methodology

We conducted this performance audit from January 2010 through July 2011 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

We performed the audit to determine whether the journal vouchers recorded by DFAS Columbus to produce the FY 2009 Air Force General Fund Statement of Budgetary Resources and other budgetary reports were adequately supported and properly approved. We conducted the audit work at DFAS Columbus. We interviewed personnel, performed walkthroughs of the journal voucher process, obtained the universe of journal vouchers posted into the Air Force accounting records, and reviewed supporting documentation for the adjusting entries.

The total universe of journal vouchers related to the Air Force FY 2009 Statement of Budgetary Resources consisted of 6,177 vouchers amounting to $2.08 trillion. DFAS Columbus extracted the journal vouchers from the following accounting and reporting systems: General Accounting and Finance System–Rehost (GAFS-R), Defense Departmental Reporting System–Budgetary (DDRS-B), and Defense Departmental Reporting System–Audited Financial Statements (DDRS-AFS). We refined the universe to remove journal vouchers that were duplicates or reversed within the same accounting period and, therefore, did not impact the year-end Statement of Budgetary Resources. As shown in Table A, refining the universe removed 1,952 entries amounting to $133 billion, leaving 4,225 journal vouchers, totaling $1,947 billion in adjustments, for selection of our sample and testing.

Table A. Journal Voucher Universe and Sample Selection
($ billions)

Universe	GAFS-R		DDRS-B		DDRS-AFS		Universe Total	
	Amount	**No.**	**Amount**	**No.**	**Amount**	**No.**	**Amount**	**No.**
Original	$1,998	6,026	$2	99	$79	52	**$2,080**	**6,177**
Refined	1,941	4,111	2	99	4	15	**1,947**	**4,225**
Sample	622	136	1	44	4	15	**667**	**195**

We selected a nonstatistical sample of 195 vouchers. We randomly selected 185 vouchers based on the size of each of the strata in the population and then selected the 10 highest dollar journal vouchers remaining in the universe, resulting in 195 journal vouchers selected for testing. We examined original documents to determine whether DFAS Columbus properly supported and approved the journal vouchers. Using our sample results, we reviewed the universe to identify similar journal vouchers and quantified the total value of unsupported adjustments associated with the additional

journal vouchers that we identified. In this report, we discuss our sample results and also apply them to other DFAS-prepared journal vouchers with similar discrepancies.

Use of Computer-Processed Data

We relied on computer-processed data from GAFS-R, DDRS-B, and DDRS-AFS for this report. DFAS posted journal vouchers related to the FY 2009 Air Force General Fund Statement of Budgetary Resources in these systems. We substantiated the universe of journal voucher transactions provided by DFAS by reperforming the queries to identify the journal vouchers through our independent access to those systems and a comparison of those results to the database received from DFAS. We did not find any differences between our queries and the DFAS databases.

We relied on the universe of journal voucher transactions provided by DFAS to select a sample of items for testing. We tested the journal vouchers in our sample selection by corroborating the data within the system through inquiry, inspection of the hardcopy vouchers and supporting documents, and re-performance and recalculation as applicable. For certain exceptions noted in our sample item testing, we relied on the universe of journal voucher transactions to quantify the effect of all items in the universe with the same attributes as our exception items. Based on this work, we concluded that the journal voucher data were sufficiently reliable and accurate to accomplish our audit objectives for our review of the journal vouchers related to the FY 2009 Air Force General Fund Statement of Budgetary Resources.

Use of Technical Assistance

We obtained technical assistance from our Quantitative Methods Division in developing the sample design for our audit. We stratified the universe of journal vouchers based on category, and determined specific sampling sizes based on the size of each stratified population. The Quantitative Methods Division assisted the auditors in selecting a nonstatistical sample of 185 journal vouchers from the stratified populations based on the size of the stratum. The auditors increased the sample to include the 10 highest dollar journal vouchers remaining in the universe to ensure adequate dollar coverage of the review.

Prior Coverage on Journal Voucher Adjustments

During the last 5 years, the DoD Inspector General (DoDIG) and the Air Force Audit Agency (AFAA) have issued nine reports discussing adjusting journal vouchers impacting the Air Force financial statements. Unrestricted DoDIG reports can be accessed at http://www.dodig.mil/audit/reports.

Unrestricted Air Force reports can be accessed over the Internet from .mil domains by those with Common Access Cards at https://afkm.wpafb.af.mil/ASPs/CoP/OpenCoP.asp?Filter=OO-AD-01-41.

DoD IG

DoDIG Report No. D-2011-007, “Independent Auditor’s Report on the Air Force General Fund FY 2010 and 2009 Basic Financial Statements,” November 9, 2010

DoDIG Report No. D-2009-044, “Defense Finance and Accounting Services Indianapolis Compilation of Other Defense Organizations General Fund Financial Data,” January 23, 2009

DoDIG Report No. D-2008-084, “Journal Vouchers Processed by the Defense Financial and Accounting Service for the Navy Working Capital Fund,” April, 25, 2008

DoDIG Report No. D-2008-055, “Internal Controls over FY 2007 Army Adjusting Journal Vouchers,” February 22, 2008

DoDIG Report No. D-2008-008, “Defense Finance and Accounting Service Columbus Process for Consolidating and Compiling Other Defense Organizations Financial Data,” October 30, 2007

DoDIG Report No. D-2007-058, “Controls Over the Army, General Fund, Fund Balance With Treasury Journal Voucher Adjustments,” February 8, 2007

AFAA

Air Force Audit Agency Report No. F2007-0010-FB3000, “Depot Maintenance Activity Group Manual Voucher Oversight,” June 8, 2007

Air Force Audit Agency Report No. F2007-0007-FB3000, “Deport Maintenance Activity Group Manual Adjustments,” April 20, 2007

Air Force Audit Agency Report No. F2007-0006-FB3000, “Air Force Working Capital Fund Fiscal Year 2005 Accounting Adjustments,” March 15, 2007

Appendix B. Air Force General Fund FY 2009 Combined Statement of Budgetary Resources

UNITED STATES AIR FORCE

General Fund
Principal Statements

COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended September 30, 2009 and 2008
($ in Thousands)

	2009 Combined	2008 Combined
BUDGETARY FINANCING ACCOUNTS		
BUDGETARY RESOURCES		
Unobligated balance, brought forward, October 1	$ 26,676,890	$ 21,175,345
Recoveries of prior year unpaid obligations	4,093,396	4,602,017
Budget authority		
Appropriation	163,975,253	156,791,805
Spending authority from offsetting collections		
Earned		
Collected	9,302,479	10,464,416
Change in receivables from Federal sources	324,746	(354,080)
Change in unfilled customer orders		
Advance received	147,616	(199,948)
Without advance from Federal sources	80,913	38,934
Subtotal	173,831,007	166,741,127
Nonexpenditure transfers, net, anticipated and actual	823,808	2,750,362
Permanen ly not available	(3,833,813)	(3,194,456)
Total Budgetary Resources	$ 201,591,288	$ 192,074,395
Status of Budgetary Resources:		
Obligations incurred:		
Direct	$ 162,319,819	$ 155,042,972
Reimbursable	10,060,121	10,354,532
Subtotal	172,379,940	165,397,504
Unobligated balance:		
Apportioned	26,091,928	24,139,914
Exempt from apportionment	4,480	3,820
Subtotal	26,096,408	24,143,734
Unobligated balance not available	3,114,940	2,533,157
Total status of budgetary resources	$ 201,591,288	$ 192,074,395
Change in Obligated Balance:		
Obligated balance, net		
Unpaid obligations, brought forward, October 1	$ 67,813,258	$ 60,933,360
Less: Uncollected customer payments	(2,051,639)	(2,366,785)
from Federal sources, brought forward, October 1		
Total unpaid obligated balance	65,761,619	58,566,575
Obligations incurred net (+/-)	172,379,940	165,397,504
Less: Gross outlays	(160,002,387)	(153,915,590)
Less: Recoveries of prior year unpaid obliga ions, actual	(4,093,396)	(4,602,017)
Change in uncollected customer	(405,660)	315,146
payments from Federal sources (+/-)		
Obligated balance, net, end of period		
Unpaid obligations	76,097,415	67,813,257
Less: Uncollected customer payments	(2,457,299)	(2,051,639)
from Federal sources (-)		
Total, unpaid obligated balance, net, end of period	73,640,116	65,761,618
Net Outlays		
Net Outlays:		
Gross outlays	160,002,387	153,915,590
Less: Offsetting collections	(9,450,094)	(10,264,468)
Less: Distributed Offsetting receipts	(104,099)	(201,497)
Net Outlays	$ 150,448,194	$ 143,449,625

Appendix C. Air Force General Fund Budgetary Reporting

Statement of Budgetary Resources

The SBR and related disclosures provide information about the source of budgetary resources as well as their status at the end of the period. It is the only financial statement predominantly derived from an entity's budgetary information in accordance with budgetary accounting rules. The statement presents four sections of budgetary information.

1. Budgetary Resources reports the total budgetary resources available to the reporting entity. Budgetary resources includes new budget authority, unobligated balances at the beginning of the year and transferred in and out during the year, spending authority from offsetting collections, recoveries of prior-year unpaid obligations, and any adjustments to these resources.

2. Status of Budgetary Resources displays the status of the available resources as of the applicable year-end. It consists of the obligations incurred, the unobligated balances at the end of the year that remain available, and unobligated balances at the end of the year that are unavailable except to adjust or liquidate prior-year obligations.

3. Change in Obligated Balance displays the balance of obligated funds carried forward, new obligations incurred, and obligations paid during the year.

4. Net Outlays reports disbursements net of offsetting collections. The outlays are to agree with, and be reconciled to, the agency outlay totals reported in the Budget of the United States Government.

Other Budgetary Reports

Financial reporting includes other significant internal or external financial reports as well as annual financial statements. Other significant financial reports are any financial reports that could have a material effect on a significant spending, budgetary, or other financial decision of the agency and those used to determine compliance with laws and regulations on the part of the agency. The Air Force determines the scope of financial reports that it considers significant. In addition to the annual financial statements, significant reports include: quarterly financial statements; trial balances at the operating division or program level; budget execution reports; reports used to monitor specific activities, such as special revenues, receivables, or liabilities; and reports used to monitor specific compliance with laws and regulations. During FY 2009, the Air Force produced other budgetary reports, including the quarterly SBR, and budget execution reports, such as the SF 133, "Report on Budget Execution and Budgetary Resources," Report 1002, "Appropriation Status by Fiscal Year Program and Sub-accounts," and Report DD725, "Report on Reimbursements." The system of internal control over financial reporting includes review and analysis of such reports, which can result in adjustments and corrections of financial data as discussed below under Adjusting Journal Vouchers.

Internal Control Over Financial Reporting

Air Force financial management is responsible for establishing and maintaining internal control to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. In accordance with Office of Management and Budget, Circular A-123, "Management's Responsibility for Internal Control," December 21, 2004, management must take systematic and proactive measures to assess and document internal control over financial reporting, identify needed improvements, take corrective action, and report annually on internal control through management assurance statements. The Federal Financial Management Improvement Act of 1996 and Office of Management and Budget, Circular No. A-127, "Financial Management Systems," January 9, 2009, also instruct agencies to maintain an integrated financial management system that complies with Federal systems requirements, Federal Accounting Standards Advisory Board Standards, and the USSGL at the transaction level.

Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting. Reliability of financial reporting means that management can reasonably make the following assertions:

- All reported transactions actually occurred during the reporting period and all assets and liabilities exist as of the reporting date (existence and occurrence);
- All assets, liabilities, and transactions that should be reported have been included and no unauthorized transactions or balances are included (completeness);
- All assets are legally owned by the agency and all liabilities are legal obligations of the agency (rights and obligations);
- All assets and liabilities have been properly valued, and where applicable, all costs have been properly allocated (valuation);
- The financial report is presented in the proper form and any required disclosures are present (presentation and disclosure);
- The transactions are in compliance with applicable laws and regulations (compliance);
- All assets have been safeguarded against fraud and abuse; and
- Documentation for internal control, all transactions, and other significant events is readily available for examination.

A business process is a sequence of events, consisting of the methods and records used to establish, identify, assemble, analyze, classify, and record (in the general ledger) a particular type of transaction. Examples include:

- Cash receipts and disbursements,
- Collection of accounts receivable,
- Purchase and sale of inventory,
- Customer billing, and
- Payroll.

A line item or account-related accounting application consists of the methods and records established to report an entity's recorded transactions and to maintain accountability for related assets and liabilities. Line item or account-related processes consist of methods to report transactions and demonstrate accountability. Examples include:

- Fund Balance with Treasury,
- Accounts receivable,
- Inventory control,
- Property and equipment, and
- Accounts payable.

Financial Improvement and Audit Readiness

The Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD (USD[C]/CFO), has had a Financial Improvement and Audit Readiness (FIAR) plan in place since 2005. The FIAR plan provides direction to the Military Departments and other Defense agencies regarding achieving financial statement audit readiness and reports significant goals and milestones for the Department to accomplish that goal.

On May 15, 2010, USD(C)/CFO issued "Fiscal Year 2010 Financial Improvement and Audit Readiness Guidance," a document establishing a revised emphasis for near-term direction. The Comptroller emphasized achieving audit readiness related to financial data most important to the Department in its day-to-day business management. That emphasis included budgetary data, such as that presented in the SBR.

The FIAR guidance sets forth a requirement that components must evaluate their internal controls against the key control objectives in the Government Accountability Office/President's Council on Integrity and Efficiency, "Financial Audit Manual," July 25, 2008. An example of a key control objective related to the SBR is that all reported obligations represent valid orders that will require future payment. In addition, the components must determine the availability of key supporting documents related to financial statements and line items in those statements. Examples of key supporting documents related to the SBR are reimbursable agreements, purchase orders, Military Interdepartmental Purchase Requests, and so on, to support unpaid obligations (undelivered orders).

Appendix D. Journal Voucher Sample Items Selected for Testing

Journal Voucher (JV) ID	Forced Entries (Finding A)	Audit Trails Weakness (Finding B)					Inadequate Approvals (Finding C)
		Overall Audit Trail Exception Noted	Audit Trail Deficiency				No Approval (X) Not Approved at the Proper Level (XX)
			Inadequate Description	Calculation Methodology Missing	Copy of Original JV Missing	Reference to Support Not Sufficient	
J2009004242		X		X		X	
J2009013640		X				X	
J2009013626		X				X	
J2009003399		X				X	
J2009009456		X	X			X	
J2009003811		X				X	
J2009013788		X				X	
J2009013629		X				X	
J2009013786		X				X	
J2009013781		X				X	
J2009000256		X	X	X		X	XX
J2009000361		X	X	X		X	
J2009009985		X	X	X		X	X
J2009002044		X		X	X	X	
J2009010880		X	X	X		X	X
J2009000249		X	X	X		X	
J2009000352		X	X	X		X	
J2009000464		X	X	X		X	
J2009004112		X	X	X		X	X
J2009014585		X	X	X		X	X
J2009013310		X	X	X		X	X
J2009010008		X	X	X		X	X
J2009007617		X	X	X		X	X
J2009000488		X	X	X		X	XX
J2009000498		X	X	X		X	
J2009012107		X	X	X		X	X
J2009000475		X	X	X		X	
J2009014588		X	X	X		X	X
J2009013319		X	X	X		X	X
J2009000241		X	X	X		X	
J2009004225							
J2009010022		X	X	X		X	X

Journal Voucher (JV) ID	Forced Entries (Finding A)	Audit Trails Weakness (Finding B)					Inadequate Approvals (Finding C)
		Overall Audit Trail Exception Noted	Audit Trail Deficiency				No Approval (X) Not Approved at the Proper Level (XX)
			Inadequate Description	Calculation Methodology Missing	Copy of Original JV Missing	Reference to Support Not Sufficient	
J2009013285		X	X	X		X	X
J2009008753		X	X	X		X	X
J2009005527		X	X	X		X	X
J2009015441		X	X			X	
J2009015444		X	X			X	
J2009015447							
J2009015542		X	X	X	X	X	
J2009015545		X	X	X		X	
J2009015637		X	X	X	X	X	
J2009015640		X	X	X	X	X	
J2009015641		X	X			X	
J2009016013		X	X	X	X	X	
J2009016014		X	X	X	X	X	
J2009012475							
J2009014134							
J2009014150		X		X		X	
J2009015491		X	X		X	X	
J2009003405		X	X		X		
J2009000001		X	X				
J2009002103	X						
J2009007423							
J2009015636							
J2009008126		X	X			X	
J2009011179							
J2009015464		X	X			X	
J2009005660							
J2009015496							
J2009002076		X				X	
J2009007043	X						
J2009012348							
J2009011520	X						
J2009011558		X	X				
J2009010434							
J2009003165		X	X			X	
J2009015055	X						
J2009004185							

Journal Voucher (JV) ID	Forced Entries (Finding A)	Audit Trails Weakness (Finding B)					Inadequate Approvals (Finding C)
		Overall Audit Trail Exception Noted	Audit Trail Deficiency				No Approval (X) Not Approved at the Proper Level (XX)
			Inadequate Description	Calculation Methodology Missing	Copy of Original JV Missing	Reference to Support Not Sufficient	
J2009011157							
J2009002099	X						
J2009009163							
J2009009283		X				X	
J2009006821		X	X			X	
J2009015041	X						
J2009016011							
J2009015176		X	X	X		X	
J2009005840	X						
J2009015169	X						
J2009009277	X						
J2009004540	X						
J2009001953	X						
J2009004537	X						
J2009004383	X						
J2009004548	X						
J2009013541	X						
J2009010116	X						
J2009010319	X						
J2009008012	X						
J2009001669	X						
J2009008019	X						
J2009009293	X						
J2009007005	X						
J2009011251	X						
J2009004567	X						
J2009011191	X						
J2009007866	X						
J2009003226	X						
J2009004386	X						
J2009013921	X						
J2009009256	X						
J2009013936	X						
J2009013516	X						
J2009012482	X						
J2009006843	X						

Journal Voucher (JV) ID	Forced Entries (Finding A)	Audit Trails Weakness (Finding B)					Inadequate Approvals (Finding C)
		Overall Audit Trail Exception Noted	Audit Trail Deficiency				No Approval (X) Not Approved at the Proper Level (XX)
			Inadequate Description	Calculation Methodology Missing	Copy of Original JV Missing	Reference to Support Not Sufficient	
J2009009284	X						
J2009012329	X						
J2009001650							
J2009000116		X	X	X	X	X	X
J2009014971							
J2009005976		X	X				
J2009000119		X	X	X	X	X	X
J2009014343		X	X	X		X	X
J2009014617							
J2009014972							
J2009014314		X	X	X		X	X
J2009014310		X	X	X		X	X
J2009015903	X						
J2009015823	X						
J2009015906	X						
J2009015709	X						
J2009015800	X						
J2009015925	X						XX
J2009015728	X						XX
J2009015706	X						XX
J2009015746	X						
J2009015712	X						
1868521		X	X			X	
2320946							
3172169		X	X			X	
1992643							
3172174		X	X			X	
3172176		X	X	X		X	
1427125							
3172173		X	X			X	
1986799		X	X				
3172152		X	X			X	
1870619		X	X			X	
1870621		X	X			X	
1870625		X	X			X	
1870637		X	X			X	

Journal Voucher (JV) ID	Forced Entries (Finding A)	Audit Trails Weakness (Finding B)					Inadequate Approvals (Finding C)
		Overall Audit Trail Exception Noted	Audit Trail Deficiency				No Approval (X) Not Approved at the Proper Level (XX)
			Inadequate Description	Calculation Methodology Missing	Copy of Original JV Missing	Reference to Support Not Sufficient	
1870638		X				X	
2116149							
2116150							
2116151							
2116169							
20090408782	X						
20090408783	X						
2496690		X	X	X		X	
1871216	X						
2961450		X		X		X	
2260825							
1671700		X		X		X	
2961323							
1671683		X				X	
1671701		X				X	
2961300							
2496630		X			X	X	
2818422							
2321005							
1320695	X						
1671479	X						
2818562	X						
1872296							
20090161369							
1871270							
1871330							
1871342		X		X		X	
1871370		X	X			X	
1871371		X	X			X	
1872297		X		X		X	
64904	X						
64905	X						
65067	X						
65068	X						
64934	X						
65033	X						

Journal Voucher (JV) ID	Forced Entries (Finding A)	Audit Trails Weakness (Finding B)					Inadequate Approvals (Finding C) No Approval (X) Not Approved at the Proper Level (XX)
		Overall Audit Trail Exception Noted	Audit Trail Deficiency				
			Inadequate Description	Calculation Methodology Missing	Copy of Original JV Missing	Reference to Support Not Sufficient	
65007							
64835							
64644	X						
64622	X						
64630		X		X		X	
64771		X				X	
64901		X				X	
64894							
64928							
J2009002083							
J2009004576		X	X			X	
J2009001994							
J2009003409		X	X		X	X	
J2009001936							
J2009004574							
J2009003200		X	X	X	X	X	
J2009001770							
J2009015810	X						XX
J2009015814	X						XX
Totals	**62**	**89**	**65**	**46**	**12**	**85**	**No approval (X) (19)** **Not Approved at the Proper Level (XX) (7)**

Defense Finance and Accounting Service Columbus Comments

DEFENSE FINANCE AND ACCOUNTING SERVICE
P.O. BOX 182317
COLUMBUS, OHIO 43218-2317

DFAS-JB/CO

SEP - 1 2011

MEMORANDUM FOR PROGRAM DIRECTOR, DEPARTMENT OF DEFENSE PAYMENTS AND ACCOUNTING OPERATIONS

SUBJECT: Management Comments to the Department of Defense Inspector General Draft Audit Report, "Deficiencies in Journal Vouchers that Affected the FY 2009 Air Force General Fund Statement of Budgetary Resources," Project Number D2010-D000FD-0085.000, dated August 2, 2011

This memorandum addresses the recommendations made in the subject report to the Defense Finance and Accounting Service (DFAS) Columbus. Thank you for the opportunity to respond to the draft report and recommendations, it is important to begin with a history of the Air Force and DFAS journal voucher environment.

Journal vouchers are an important accounting tool to record transactions not yet in the accounting records and to make corrections. In all cases, the journal vouchers should be accompanied by clear explanations, supporting documentation, and management approvals. The legacy environment of non-integrated systems drives the need for many of the journal vouchers referenced in the report.

In the past eight years, the Air Force and DFAS have reduced the need for journal vouchers. With implementation of the new Air Force General Ledger (General Accounting and Finance System – Rehost) in Fiscal Year 2004, approximately 15,500 journal vouchers were processed. By Fiscal Year 2010, the number declined to approximately 4,000, a 74 percent reduction, as system enhancements to interface appropriation data, prior year obligation adjustments, and contract pay accruals were implemented. During the same period, we have seen systemic interfaces of accounting transactions, which negate the need for journal vouchers, grow from about 1,500 annually to almost 7,900 in Fiscal Year 2010.

DFAS Columbus will continue the trend to reduce journal vouchers while strengthening journal voucher discipline in areas such as abnormal balances, supporting materials, and management approvals. The Columbus staff has incorporated best practices with proactive reconciliations of abnormal balances and cataloging explanations and supporting documentation for recurring journal vouchers.

Defense Finance and Accounting Service Columbus Comments

Our management response to the audit recommendations is attached. For additional information, please contact [redacted]

Jonathan Witter
Director, DFAS Columbus

Attachment:
As stated

2

Defense Finance and Accounting Service Columbus Comments

Management Comments to Department of Defense Inspector General Draft Report, "Deficiencies in Journal Vouchers that Affected the FY 2009 Air Force General Fund Statement of Budgetary Resources," Project Number D2010-D000FD-0085.000, dated August 2, 2011

A We recommend that the Director, Defense Finance and Accounting Service Columbus:

Recommendation A.1: Implement accounting procedures required by the "DoD Financial Management Regulation," volume 6A, chapter 2, paragraph 020204.B., for each of the forced journal voucher adjustments discussed in this report. Those procedures should require that:

a. all general ledger and other associated financial balances that require supporting subsidiary records are reconciled to those records:
b. unreconciled differences are resolved by identifying specific reconciling transactions to support appropriate journal voucher adjustments; and
c. DFAS coordinate with Air Force entities when the Air Force maintains the original source documents or transactions that require research to reconcile the balances.

Current Management Comments: Concur. The Director of Defense Finance and Accounting Service (DFAS) Columbus established a team to review and improve Air Force journal vouchers. Drawing from best practices, standard operating procedures were implemented for reconciling abnormal balances in February 2011. Details are provided to the Air Force monthly for research and resolution.

Historically, DFAS prepared a small number of journal vouchers at fiscal yearend to resolve out of balances when Air Force personnel and source documents were unavailable; e.g., balancing of reimbursable programs. DFAS Columbus prepared a Memorandum of Agreement between the Air Force and DFAS defining the methodology and authority for DFAS to prepare General Fund Journal Vouchers for unfilled orders and reimbursable obligations in the absence of supporting detail transactions. We expect the signed agreement to be in place for Fiscal Year 2011 fiscal yearend.

Until legacy processes are corrected, DFAS Columbus will continue to post appropriate accounting transactions to balance unexpended appropriation adjustments. We will continue to reduce the amount of unexpended appropriations variance by identifying the root causes to correct or support the adjustment.

As required by the DoD FMR, DFAS-Columbus will continue to record buyer side adjustments to match seller side data on the Financial Statements. Until such time as field accounting systems can capture elimination data, DFAS will continue to work with the Air Force and their customers in identifying proper trading partner amounts.

The audit report identifies 1,437 journal vouchers that were processed to make disbursements and collections for Air Force appropriations match U.S. Treasury. Beginning FY 2012, we will use details from the Columbus Cash Accountability System (CCAS) reconciliation tool to provide the required voucher detail transactions to support undistributed balances and JV's.

Estimated Completion Date: February 1, 2012

Defense Finance and Accounting Service Columbus Comments

Recommendation A.2: Implement the accounting process required by the "DoD Financial Management Regulation," volume 3, chapter 2, paragraph 100201.D.,which requires that before preparing journal vouchers by automated programming routines to close fiscal year-end balances, DFAS accountants research and adjust unexpected and abnormal balances for expiring and canceling appropriated funds.

Current Management Comments: Concur. As noted above, standard operating procedures were implemented in February 2011 to research abnormal balances monthly and advise the Air Force. DFAS Columbus currently reviews and analyzes abnormal balances on the Year End Closing (2108) report, the Appropriations Status by FY Program and Subaccounts (1002) report, Statement of Budgetary Resources (133) report and trial balances. A management review capturing unexpected or abnormal amounts in cancelling years will be analyzed monthly.

Estimated Completion Date: February 1, 2012

B. We recommend that the Director, Defense Finance and Accounting Service Columbus:

Recommendation B.1: Modify the standard journal voucher template, with narrative prompts to ensure that journal voucher documentation include:

a. a clear description explaining the reason for the journal voucher that demonstrates that the journal voucher is proper and accurate;
b. a clear indication of the calculation methodology used in determining the journal voucher amounts;
c. a narrative explanation for correcting journal vouchers that includes comments about why the original entry is incorrect and why the correcting entry is more accurate; and
d. adequate references to supporting documentation, including specific identification of documents, their location, and a point of contract.

Current Management Comments: Concur. In June 2011, DFAS Columbus created a catalog of standardized narratives that comply with the DoD Financial Management Regulation and assist accountants in providing a complete explanation, preparation methodology, and standard documentation with the journal vouchers.

Estimated Completion Date: This recommendation is considered closed.

Recommendation B.2: Require a documented reconciliation between the systems at fiscal year end and explanation of differences that exist between general ledger accounts.

Current Management Comments: Concur. During the audit, DFAS Columbus identified the cause for $4.9 Billion of the $5 Billion difference identified by auditors. Transactions unrelated to the reconciliation were inadvertently included in the file provided to the auditors. Additionally, a manual reconciliation between the GAFS-R trial balances and DDRS trial balances will be performed.

Estimated Completion Date: February 1, 2012

2

Defense Finance and Accounting Service Columbus Comments

Final Report Reference

C. We recommend that the Director, Defense Finance and Accounting Service Columbus:

Recommendation C.1: Eliminate the "Auto-Approval Process" routine in the General Accounting Finance System-Rehost system to ensure that each journal voucher posted into the accounting system bears evidence of actual supervisory review and approval.

Current Management Comments: Partially Concur. Despite DFAS clarifications, the auditors have mischaracterized thousands of system generated adjustments as journal vouchers. The systemic characteristics, categories, and processes for these transactions, to include the complete transaction table from GAFS-R, conform to the United States Standard General Ledger (USSGL) transaction library mapping. DFAS Policy and Performance Staff reviewed these system generated adjustments and concluded they are not journal vouchers. They are neither to adjust for errors identified during the report review process nor to record accounting entries that, due to system limitation or timing differences, have not been otherwise recorded. They merely adjust data already in the system under predetermined accounting rules.

Working within legacy accounting system constraints, DFAS and the Air Force will continue to use the journal voucher module within GAFS-R to process transactions as pre-closing, reestablishments, and Depot Maintenance entries and reduce the need for manual journal vouchers. It is not cost effective to revise the journal voucher module in GAFS-R to relabel these transactions. However, we have developed a mass approval memorandum for these systemic adjustments since they are recorded in the automated journal voucher log for audit trail purposes. Additionally, the "Auto-Approval Process" for MOCAS Accrual entries will be removed and entries will undergo manual supervisory review.

Estimated Completion Date: This recommendation is considered closed.

Recommendation C.2: Verify that the Director for Accounting and Finance includes all system prepared journal vouchers in the required review of journal vouchers within 10 workdays after financial reports are prepared to confirm that approval thresholds were met. Revised.

Current Management Comments: Partially Concur. As noted above, the system generated and approved adjustments have predefined characteristics, categories, and processes that conform to USSGL and the DoDFMR. The adjustments are not journal vouchers and do not require an approval. They are labeled as journal vouchers strictly because of limitations in the legacy accounting systems. DFAS Policy and Performance Management concluded these adjustments were supported by documentation, reliable system logic, and process.

Estimated Completion Date: This recommendation is considered closed.

3

Inspector General
Department of Defense