Report No. DODIG-2012-096 May 31, 2012

# Inspector General
## United States Department of Defense

# Defense Departmental Reporting System-Budgetary Was Not Effectively Implemented for the Army General Fund

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## Acronyms and Abbreviations

| | |
|---|---|
| AGF | Army General Fund |
| BTA | Business Transformation Agency |
| DDRS-AFS | Defense Departmental Reporting System-Audited Financial Statements |
| DDRS-B | Defense Departmental Reporting System-Budgetary |
| DFAS | Defense Finance and Accounting Service |
| DoD FMR | DoD Financial Management Regulation |
| ELECTRA | Electronic Error Correction and Transaction Analysis |
| FACTS II | Federal Agencies' Centralized Trial-Balance System II |
| FFMIA | Federal Financial Management Improvement Act of 1996 |
| GFEBS | General Fund Enterprise Business System |
| GLAC | General Ledger Account Code |
| OMB | Office of Management and Budget |
| RDT | Report Data Type |
| SBR | Statement of Budgetary Resources |
| SF | Standard Form |
| SOP | Standard Operating Procedures |
| TAB | Table of Abnormal Balance |
| 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

May 31, 2012

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
DIRECTOR, DEFENSE LOGISTICS AGENCY
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Defense Departmental Reporting System-Budgetary Was Not Effectively Implemented for the Army General Fund (Report No. DODIG-2012-096)

We are providing this report for your information and use. Defense Finance and Accounting Service Indianapolis management did not effectively implement the Defense Departmental Reporting System-Budgetary for processing accounting data used in preparing Army General Fund budget execution reports and financial statements. Unless the identified control deficiencies are corrected, Army may not be able to meet the mandated FY 2014 Statement of Budgetary Resources and FY 2017 DoD financial statement audit readiness deadlines.

We considered management comments on a draft of this report when preparing the final report. The Assistant Secretary of the Army (Financial Management and Comptroller) and Director, Defense Finance and Accounting Service Indianapolis comments conformed to the requirements of DoD Directive 7650.3; therefore, additional comments are not required.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 604-8938 (DSN 664-8938).

Richard B. Vasquez, CPA
Acting Assistant Inspector General
Financial Management and Reporting

# Results in Brief: Defense Departmental Reporting System-Budgetary Was Not Effectively Implemented for the Army General Fund

## What We Did

We determined whether the Defense Departmental Reporting System-Budgetary (DDRS-B) was effectively implemented for the Army General Fund (AGF) and whether the March 2010 AGF data was reliable. In addition, we reviewed the status of related prior audit report recommendations.

## What We Found

Defense Finance and Accounting Service (DFAS) Indianapolis management did not effectively implement DDRS-B for processing accounting data used in preparing AGF budget execution reports and financial statements. Specifically, DFAS Indianapolis personnel did not:

- document DDRS-B financial reporting processes and controls;
- retain 157 of the 241 feeder files and provide files in a timely manner for audit;
- maintain supporting documentation for and adequately report $713.9 billion in Electronic Error Correction and Transaction Analysis (ELECTRA) adjustments; and
- maintain adequate supporting documentation for $26.2 billion, coordinate $44.7 billion, and report to DoD management $90 billion in journal voucher adjustments prepared for March 2010.

This occurred because DFAS Indianapolis management did not have adequate controls over DDRS-B processing of AGF financial data to ensure compliance with DoD financial management requirements. These control deficiencies created uncertainty about the validity of the $2.1 trillion reported in the March 2010 export file and amounts reported on the AGF financial statements and budget execution reports. Unless the control deficiencies are corrected, Army may not be able to meet the mandated FY 2014 Statement of Budgetary Resources and FY 2017 DoD financial statement audit readiness deadlines. DFAS Indianapolis procedures used to process AGF data in DDRS-B have not changed from March 2010.

## What We Recommend

We recommend that the Assistant Secretary of the Army (Financial Management and Comptroller) coordinate with the Director, DFAS Indianapolis to update the Army's Office of Management and Budget Circular A-123 documentation for DDRS-B financial reporting system processes.

The Director, DFAS Indianapolis should:

- retain DDRS-B feeder files,
- maintain support for and report all ELECTRA adjustments, and
- add procedures on DDRS-B journal voucher preparation and approval.

## Management Comments and Our Response

Assistant Secretary of the Army (Financial Management and Comptroller) and Director, DFAS Indianapolis agreed with our recommendations. No further comments are required.

## Recommendations Table

| Management | Recommendations Requiring Comment | No Additional Comments Required |
|---|---|---|
| Assistant Secretary of the Army (Financial Management and Comptroller) | None | 1.a, 1.b |
| Director, Defense Finance and Accounting Service Indianapolis | None | 2.a, 2.b, 2.c, 2.d, 2.e, 2.f, 2.g 2.h, 2.i, 2.j |

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# Introduction

## Audit Objectives

Our objectives of the audit were to determine whether the Defense Departmental Reporting System-Budgetary (DDRS-B) was effectively implemented and whether the Army General Fund (AGF) data was reliable. In addition, we followed up on Defense Finance and Accounting Service (DFAS) and Defense Business Transformation Agency (BTA) implementation of the recommendations made in related prior audit reports. See the Appendix for a discussion of the scope and methodology and for prior coverage related to the objective.

## Background on Army General Fund Financial Reporting

### *Business Enterprise Information Services*

Business Enterprise Information Services is a family of systems that include the DFAS Corporate Database, DFAS Corporate Warehouse, DDRS-B, and Defense Departmental Reporting System-Audited Financial Statements (DDRS-AFS). Defense Logistics Agency manages the Business Enterprise Information Services family of systems.[1] The Army uses DFAS Corporate Database and DFAS Corporate Warehouse for management information purposes. DFAS Indianapolis uses DDRS-B and DDRS-AFS to prepare AGF financial statements.

DDRS-B standardizes the DoD departmental reporting processes and produces monthly departmental reports based on the U.S. Government Standard General Ledger (USSGL) format and other standard attributes. DDRS-B replaced many of the legacy departmental budgetary reporting systems. It incorporates reporting requirements from the Office of Management and Budget (OMB), the Department of the Treasury, and the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD (USD[C]/CFO). DFAS implemented DDRS-B in November 2008 for the AGF.

### *Preparation of Army General Fund Budget Execution Reports and Financial Statements*

DFAS Indianapolis personnel use DDRS-B to prepare various AGF budget execution reports. These reports include the:

- Army Standard Form (SF) 133, "Report on Budget Execution and Budgetary Resources," which displays budgetary resources and their status, changes in obligated balances, and outlays;

[1] The Secretary of Defense disestablished BTA on June 30, 2011. Responsibility for Business Enterprise Information Services transferred to the Defense Logistics Agency.

- Accounting Report (M) 1002, "Appropriation Status by Fiscal Year Program and Subaccounts," to present budget execution data for obligational authority by fiscal year at the program level; and
- Accounting Report (M) 725, "Report on Reimbursements," to provide budget execution information for reimbursements by source and the fiscal year program being executed.

DFAS Indianapolis personnel also use DDRS-B to compile and export AGF financial data to DDRS-AFS for AGF financial statement preparation.

The FY 2010 AGF Financial Statements reported total assets of $379.3 billion, net cost of operations of $197.8 billion, and total budgetary resources of $331.8 billion. Army was not able to obtain an audit opinion on the AGF FY 2010 and FY 2009 Basic Financial Statements. Army management stated that the FY 2010 AGF Financial Statements were not fairly presented in conformity with U.S. generally accepted accounting principles and that the Army automated systems did not support material amounts on the financial statements.

## *Defense Departmental Reporting System-Budgetary Processing*

The DDRS-B processing of AGF data involves feeder files, a separate computer application to review data, and preparation of accounting adjustments. Specifically, field accounting activities submit feeder files containing Army financial data to DDRS-B. Feeder files contain AGF data records, from other Army information systems, which include report data types (RDTs) or general ledger account codes (GLACs). RDTs are codes that represent the various stages of accounting. GLACs are codes that represent general ledger accounts. DFAS Indianapolis personnel use Electronic Error Correction and Transaction Analysis (ELECTRA), a desktop computer application, to review feeder file data in DDRS-B and to prepare adjustments to feed into DDRS-B. DFAS Indianapolis personnel also process adjustments to AGF data directly in DDRS-B using journal vouchers.

## *Chief Financial Officers Act of 1990*

Public Law 101-576, "Chief Financial Officers Act of 1990," November 15, 1990, requires that financial statements be prepared annually. It also provides guidance to improve financial management and internal controls to help ensure that the Government has reliable financial information and to deter fraud, waste, and abuse of Government resources.

## *Federal Financial Management Improvement Act of 1996*

The Federal Financial Management Improvement Act of 1996 (FFMIA) requires each Federal agency to implement and maintain financial management systems that comply substantially with Federal financial management system requirements, applicable Federal accounting standards, and the USSGL at the transaction level.

### *National Defense Authorization Act for Fiscal Year 2010*

Public Law 111-84, "National Defense Authorization Act for Fiscal Year 2010," October 28, 2009, requires DoD to develop and maintain a plan known as the Financial Improvement and Audit Readiness Plan (FIAR). The FIAR describes specific actions to be taken and the costs associated with correcting the financial management deficiencies that impair the DoD's ability to prepare timely, reliable, and complete financial management information and ensuring that the DoD financial statements are validated as ready for audit by no later than September 30, 2017.

### *OMB Circular No. A-123*

OMB Circular No. A-123 Revised, "Management's Responsibility for Internal Control," December 21, 2004, requires management to develop effective internal controls over its financial reporting process. The Circular requires that agencies maintain documentation of the key business processes and controls that are in place and the assessment process management used to determine control effectiveness.

### *OMB Circular No. A-127*

OMB Circular No. A-127 Revised, "Financial Management Systems," January 9, 2009, implements the FFMIA requirements and provides policies and standards for executive departments and agencies to follow when managing financial management systems. The Circular requires that financial events be recorded applying the requirements of USSGL. Application of USSGL at the transaction level means each time an approved transaction is recorded in the accounting system it will generate appropriate general ledger accounts for posting the transaction according to the rules defined in the USSGL guidance.

### *Secretary of Defense - Audit Readiness Directive*

The Secretary of Defense Memo dated October 13, 2011, directed DoD to accelerate key elements of the FIAR Plan and placed greater emphasis on achieving the FIAR priorities and attaining auditable financial statements. The directive requires the USD[C]/CFO to revise the plan to achieve audit readiness for the Statement of Budgetary Resources (SBR) by the FY 2014.

## Internal Controls Were Not Effective for Army General Fund Financial Reporting

DoD Instruction 5010.40, "Managers' Internal Control Program (MICP) Procedures," July 29, 2010, requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. We identified weaknesses in the design and operation of DFAS Indianapolis internal controls for AGF financial reporting. Specifically, DFAS Indianapolis management did not have adequate internal controls over documentation of DDRS-B processes, feeder file inventory control reports, retention of feeder system files, abnormal balance detection, journal vouchers, and reconciliations between Army and OMB SF 133s and the Statements of Budgetary Resources. We will provide a copy of the report to the senior official(s) responsible for internal controls.

# Finding. DFAS Indianapolis Management Need to Improve DDRS-B Processes for the Army General Fund

DFAS Indianapolis management did not effectively implement DDRS-B for processing accounting data used in preparing the AGF budget execution reports and financial statements. Specifically, for DDRS-B processing of March 2010 AGF financial data, DFAS Indianapolis personnel did not:

- document DDRS-B financial reporting processes and controls;
- maintain complete and accurate DDRS-B feeder file inventory control reports;
- retain 157 of the 241 feeder files and provide files in a timely manner for audit;
- maintain supporting documentation for and adequately report $713.9 billion in ELECTRA adjustments;
- maintain adequate supporting documentation for $26.2 billion, coordinate $44.7 billion, and report to DoD management $90 billion in journal voucher adjustments prepared for March 2010;
- identify and correct $6.4 billion, and $28.5 billion abnormal balances contained in feeder file and export file, respectively;
- use USSGL formatted feeder file data, but instead continued to use budgetary status data; and
- reconcile and correct variances between Army SF 133, OMB SF 133 and the Statement of Budgetary Resources (SBR).

This occurred because DFAS Indianapolis management did not have adequate controls over DDRS-B processing of AGF financial data to ensure compliance with DoD financial management requirements. In addition, DFAS Indianapolis personnel used budgetary status data because the Army had not implemented a single standard transaction-driven general ledger for the AGF. These control deficiencies created uncertainty about the validity of the $2.1 trillion reported in the March 2010 export file and amounts reported on the AGF financial statements and budget execution reports. Unless the control deficiencies are corrected, Army may not be able to meet the mandated FY 2014 Statement of Budgetary Resources and FY 2017 DoD financial statement audit readiness deadlines.

## DDRS-B Processes and Controls Were Not Adequately Documented

DFAS Indianapolis personnel did not adequately document DDRS-B financial reporting processes and controls, including how feeder file data were received, processed, recorded, and compiled in the DDRS-B output files for the AGF. DoD Regulation 7000.14-R, "DoD Financial Management Regulation" (DoD FMR), volume 6A, chapter 2, requires DFAS to maintain a complete and documented audit trail to support the reports it prepares. Further, OMB Circular A-123 requires Army managers

to document key financial reporting processes and controls. DFAS Indianapolis personnel did not have detailed flowcharts and process narratives to identify the key internal controls over the processing of data. In addition, they did not have documented business rules governing the DDRS-B processing of feeder file data. DFAS Indianapolis personnel used DDRS-B to process more than 200 feeder files containing AGF data records each month. Feeder files include RDTs or GLACs. RDTs identify the various types of financial transactions. GLACs are numbers that identify specific general ledger accounts used to record transactions.

DFAS Indianapolis personnel were unable to provide six files containing March 2010 records DDRS-B considered invalid, erroneous, and dropped. In addition, there were extensive business rules governing DDRS-B processing of feeder files which DFAS Indianapolis and BTA personnel were unable to provide. This occurred because DFAS Indianapolis and BTA personnel were unaware of the need to document DDRS-B processes including which records DDRS-B excludes from processing when preparing AGF budget execution reports. The Director, DFAS Indianapolis should document DDRS-B processes and controls to comply with OMB Circular A-123 and enable DFAS Indianapolis personnel and financial statement auditors to understand how feeder file records are processed in DDRS-B.

*DFAS Indianapolis and BTA personnel were unaware of the need to document DDRS-B processes including which records DDRS-B excludes from processing when preparing AGF budget execution reports.*

Further, the Army's documentation of DFAS Indianapolis financial reporting processes was not current as required by OMB Circular A-123. DFAS is the Army's accounting service provider. Accordingly, the Army is responsible for including DFAS Indianapolis financial reporting processes and internal controls within the Army's OMB Circular A-123 documentation. Army OMB Circular A-123 documentation, "Required Deliverable Under the OUSD(C) FY 2010 Guidance for the Preparation of the Statement of Assurance, Deliverable A, Process Narratives, Flow Charts, and Organizational Charts for OUSD(C) Focus Areas Part I – Focus Area Process Flow Charts and Narratives," December 18, 2009, was not current and complete. Specifically, the document referred to Chief Financial Officer Load and Reconciliation System, which is no longer used. In addition, it did not describe DDRS-B feeder files and inventory control reports. The Army should incorporate DFAS Indianapolis process narratives and controls for DDRS-B processing into its OMB-Circular A-123 documentation for financial reporting.

## DDRS-B Feeder File Inventory Control Reports Were Not Complete and Accurate

The March 2010 DDRS-B Feeder File Inventory Control Report for the AGF was not complete and accurate. DFAS Indianapolis personnel provided us with a hardcopy of the report dated April 3, 2010. However, DFAS Indianapolis generated the report before the month-end accounting closing processes were completed. Therefore, the report did not include all AGF feeder files loaded into DDRS-B. DFAS Indianapolis personnel indicated that the April 3, 2010, report was the most complete and accurate version

available. On December 17, 2010, BTA personnel confirmed that the DFAS Indianapolis hardcopy report did not include all March 2010 processing activity, but they could not provide a more complete report.

The report is designed to identify whether feeder files were received and processed. It also is designed to identify the number of records contained in RDT files received and whether those records contain valid financial information. DFAS Indianapolis personnel use the monthly reports to monitor the receipt and processing of feeder files containing AGF data loaded into DDRS-B. DFAS Indianapolis personnel should maintain complete reports in accordance with DoD FMR, volume 6A, chapter 2, documentation requirements.

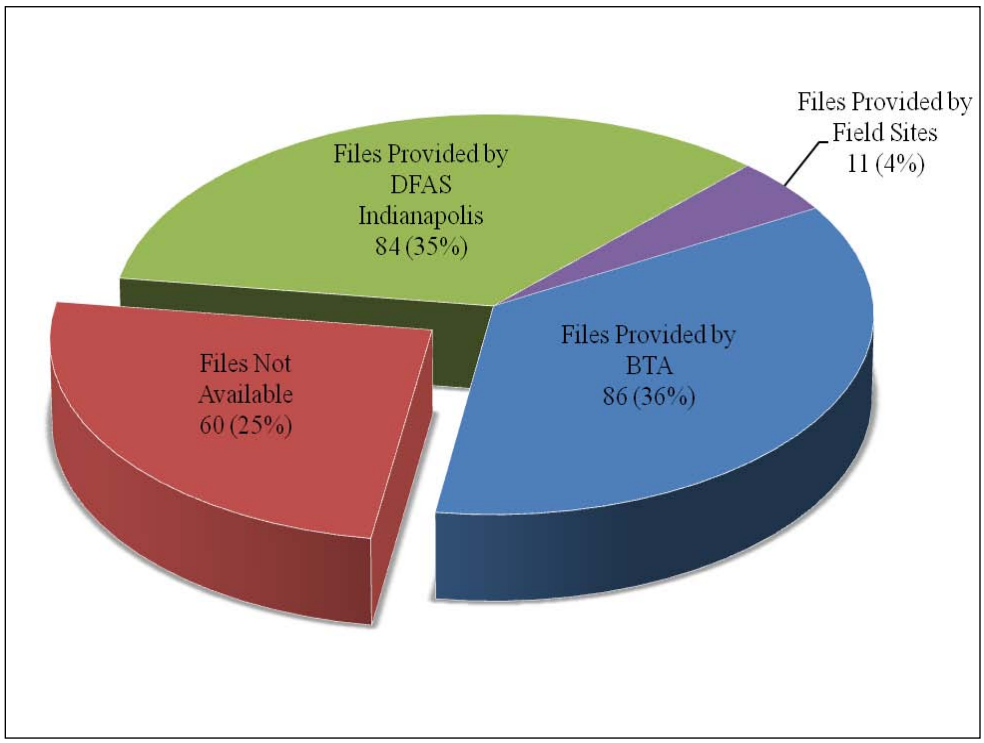
Because DFAS Indianapolis personnel were unable to provide a complete report, we used DDRS-B to generate a March 2010 report on August 20, 2010. This report understated the number of feeder files DDRS-B received and the number of feeder file records received. In addition, the other fields in the report contained mostly zeros. For example, the report showed 228,801 feeder file records received, but the available hardcopy report showed 2,282,921 records received. BTA personnel explained that this occurred because they did not retain populated reports in DDRS-B after 3 months. Later they indicated that, starting with the April 2010 report, they implemented a new DDRS-B function called "Time Sensitivity Function" to ensure the availability of system-generated monthly reports for 7 years. However, the April 2010 "Time Sensitivity Function" report was not complete and accurate. The April 2010 report inaccurately showed five feeder files as not received when DDRS-B showed their receipt. In addition, two files used by DFAS Indianapolis personnel for April 2010 AGF processing did not appear on the April 2010 report. A final report should show a complete and accurate inventory of AGF data feeder files received and the processing of the feeder file records. All final reports should be maintained for 3 years and be available to DFAS Indianapolis personnel and auditors to show that all the feeder files were received for processing.

*The April 2010 report inaccurately showed five feeder files as not received when DDRS-B showed their receipt.*

## Feeder Files Not Retained or Provided for Audit in a Timely Manner

DFAS Indianapolis personnel did not retain 157 DDRS-B feeder files or provide files for this audit in a timely manner. DDRS-B system information showed receipt of 241 AGF feeder files processed for March 2010. We expected DFAS Indianapolis personnel to be able to provide all 241 AGF feeder files; however, they were only able to provide 84 files and referred us to BTA to obtain the remaining files. BTA personnel were able to provide 86 additional files. BTA personnel told us that feeder files are only retained on the DDRS-B computer server for 3 months because of space constraints, and we would have to get the remaining files from the field submitters. Field submitters provided 11 more feeder files. We were unable to obtain the remaining 60 of 241 feeder files with AGF data. Figure 1 summarizes the results of our efforts to obtain the March 2010 feeder files.

**Figure 1. Availability of 241 March 2010 AGF Feeder Files**




DFAS Indianapolis personnel did not establish a requirement for the retention of AGF feeder files or provide the March 2010 feeder files to the Department of Defense Office of Inspector General (DoD OIG) in a timely manner. We requested the files on June 30, 2010. However, we did not receive the last file DFAS provided until September 29, 2010, 91 days after our initial request. The supporting feeder files need to be readily available for review by AGF financial statement auditors in order to meet the mandated financial statement reporting timelines. In addition, the files should be readily available to other DFAS and Army personnel who may need the data for analysis and decision-making. DFAS Indianapolis personnel should be prepared to provide auditors requested documentation within a reasonable number of business days.

DFAS Indianapolis personnel use the feeder files containing AGF data to compile AGF budget execution reports and the export file used to prepare the AGF financial statements. However, they retained the feeder files for only 3 months, limiting the audit trail for amounts reported in the AGF financial statements on a comparative basis. This retention practice did not comply with U.S. National Archives and Records Administration guidance, as referenced in the DoD FMR, volume 1, chapter 9. This guidance requires general account ledgers showing debit and credit entries, and reflecting expenditures in summary, to be maintained 6 years and 3 months after the close of the fiscal year involved. In order to support an AGF financial statement audit, DFAS Indianapolis personnel should retain feeder files containing AGF data in accordance with U.S. National Archives and Records Administration guidance.

## Inadequately Supported and Reported Electronic Error Correction and Transaction Analysis Adjustments

DFAS Indianapolis personnel did not maintain sufficient documentation to adequately support or report to DoD management $713.9 billion of ELECTRA adjustments prepared for March 2010.

### *Inadequately Supported Adjustments*

DFAS Indianapolis personnel did not have adequate support for 256,359 ELECTRA adjustments totaling $713.9 billion recorded in DDRS-B for March 2010. DFAS Indianapolis personnel made the adjustments to correct the ELECTRA table of abnormal balances (TAB) errors, DDRS-B edit table errors, and several other types of errors. See Table 1 for types and amounts of March 2010 adjustments.

**Table 1. March 2010 DDRS-B ELECTRA Adjustments**
($ in billions)

| Error Type | Errors | | | |
|---|---|---|---|---|
| | Number | Percentage of Total | Amount (billions) | Percentage of Total |
| TAB | 238,363 | 93.0 | $648.8 | 90.9 |
| Edit Table | 14,967 | 5.8 | 53.8 | 7.5 |
| Other | 3,029 | 1.2 | 11.3 | 1.6 |
| **Total** | **256,359** | **100.0** | **$713.9** | **100.0** |

TAB errors are abnormal conditions the ELECTRA application identifies using formulas that establish expected relationships between RDT records in the feeder files. For example, an abnormal condition exists when the RDT amount for the annual funding program is less than the RDT amount for funds received. The application generates a TAB error report that lists RDT records not matching these formulas. DFAS Indianapolis personnel were unable to provide us with a March 2010 ELECTRA TAB error report or any other documentation supporting the 256,359 ELECTRA adjustments. DFAS Indianapolis personnel explained that when they correct transactions, the application overlays the erroneous records with the corrected records; and, as a result, the March 2010 ELECTRA TAB error report has no data. The support for ELECTRA adjustments should be maintained to comply with DoD FMR, volume 6A, chapter 2, documentation requirements.

ELECTRA error correction adjustments are included in ELECTRA output files loaded into DDRS-B. ELECTRA adjustments affect amounts reported on DDRS-B budget execution reports and in the export file. For example, the $3.7 billion reported on the March 2010 Army SF 133 for FY 2009 Operation and Maintenance, Obligations Incurred – Category A, included $66 billion (absolute value) or a net value of $125 million in ELECTRA adjustments. However, there was no audit trail because the ELECTRA TAB error report no longer contained data and DFAS Indianapolis personnel

could not provide support for the other identified errors. In accordance with the DoD FMR, DFAS Indianapolis personnel should adequately support the ELECTRA adjustments to AGF feeder file records used for the reports it prepares.

### *Inadequate Adjustment Metric Reporting*

DFAS Indianapolis personnel did not report $713.9 billion in ELECTRA adjustments recorded in DDRS-B to the USD(C)/CFO and the Army on the Second Quarter FY 2010 Journal Voucher Metric Report. The Second Quarter FY 2010 Quarterly Financial Reporting Guidance issued by the USD(C)/CFO required that information about all changes DFAS Indianapolis personnel made to source transaction data through the final transaction data as reported in the financial reports be submitted in a quarterly journal voucher metric report. DFAS Indianapolis and DoD management can use the journal voucher metric report to monitor DoD progress in reducing unsupported accounting adjustments. DFAS Indianapolis personnel did not report the ELECTRA adjustments because they interpreted the quarterly guidance as not pertaining to ELECTRA adjustments made in DDRS-B. The metric report should include all adjustments whether or not an actual journal voucher package was prepared to record and support the adjustment. Accordingly, DFAS Indianapolis personnel should include ELECTRA adjustments on the quarterly metric report.

## Inadequately Supported, Coordinated, and Reported Journal Voucher Adjustments

DFAS Indianapolis personnel did not adequately support $26.2 billion, coordinate $44.7 billion, and report to DoD management $90 billion of journal voucher adjustments prepared in March and April 2010 for the March 2010 AGF financial reports.

### *Inadequately Supported Journal Voucher Adjustments*

DFAS Indianapolis personnel did not adequately support 78 of the 117 DDRS-B journal voucher[2] adjustments totaling $26.2 billion and $90 billion, respectively, as part of their processing of the March 2010 AGF data. Table 2 identifies these journal voucher adjustments by log title.

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[2] Journal Vouchers are used to process monthly, quarterly, and annual adjustments to unadjusted general ledger account balances in field and higher-level accounting and reporting systems.

**Table 2. Journal Voucher Adjustments for March 2010**
($ in billions)

| Journal Voucher Adjustment Log Title[3] | Supported Journal Vouchers | | Unsupported Journal Vouchers | | Total Journal Vouchers | |
|---|---|---|---|---|---|---|
| | Number | Amount | Number | Amount | Number | Amount |
| Journal Voucher | 36 | $20.9 | 48 | $20.3 | 84 | $41.2 |
| Feeder Trial Balance | 1 | 30.2 | 24 | 0* | 25 | 30.2 |
| Pre-Closing | 2 | 12.7 | 0 | 0 | 2 | 12.7 |
| Undistributed | 0 | 0 | 6 | 5.9 | 6 | 5.9 |
| **Total** | **39** | **$63.8** | **78** | **$26.2** | **117** | **$90.0** |

*In rounding to the nearest billion this amount rounds to $0, but the actual value is $43,370

DFAS Indianapolis personnel recorded journal voucher adjustments for the preparation of both budget execution reports and the export file that DDRS-AFS uses to prepare the AGF financial statements. Of the 78 unsupported journal voucher adjustments totaling $26.2 billion, DFAS Indianapolis personnel prepared and approved 40 totaling $19.6 billion. DDRS-B automatically generated the remaining 38 unsupported journal voucher adjustments totaling $6.6 billion. The 38 DDRS-B system generated adjustments were in both the Journal Voucher Adjustments and the Undistributed Adjustments logs. This occurred because DFAS Indianapolis personnel did not have guidance implementing DoD FMR requirements on journal voucher preparation for DDRS-B journal vouchers.

DoD FMR, volume 6A, chapter 2, requires both manually prepared and system generated journal voucher adjustments to be adequately documented to support the validity and amount of journal voucher transactions. However, the DFAS Indianapolis standard operating procedures (SOP) on journal voucher preparation did not include DDRS-B system generated journal vouchers. DFAS Indianapolis personnel compliance with the DoD FMR journal voucher support requirements helps ensure that journal vouchers are only recorded to properly account for actual transactions or events. Unsupported journal vouchers increase the risk of materially misstated balances reported on the AGF financial statements. DFAS Indianapolis personnel should include DDRS-B journal voucher procedures in its SOP on journal voucher preparation and approval to ensure they are adequately supported.

[3] DFAS Indianapolis uses several logs to prepare journal voucher adjustments including: Journal Voucher Adjustment Log; Feeder Trial Balance Adjustment Log; Pre-Closing Adjustment Log; and Undistributed Adjustment Log.

### *Inadequate Journal Voucher Coordination*

DFAS Indianapolis personnel did not coordinate journal vouchers used to record amounts over $1 billion with the Army as required by DoD FMR, volume 6A, chapter 2. We reviewed 3 of 13 journal vouchers prepared by DFAS Indianapolis personnel in March and April 2010. DFAS Indianapolis personnel used the vouchers to adjust March 2010 AGF financial reports. Each of the three journal vouchers recorded over $1 billon in accounting adjustments. The three journal vouchers totaling $44.7 billion did not contain evidence of coordination with the Army. Army officials sign AGF management representation letters and therefore should be aware of material accounting adjustments affecting AGF financial statements. Initially, DFAS Indianapolis personnel stated that DDRS-B journal vouchers did not have to be coordinated with Army personnel; however, they were unable to provide us with requested documentation that supported their position that DDRS-B journal vouchers were exempt from DoD FMR coordination requirements. They also stated that the Army did not want to review DDRS-B journal vouchers. However, an Army official disagreed stating that DDRS-B journal vouchers should contain a signature evidencing an Army official's coordination. DFAS Indianapolis and Army personnel should coordinate DDRS-B journal voucher adjustments over $1 billion.

### *Inadequate Journal Voucher Metric Reporting*

DFAS Indianapolis personnel did not report $90 billion of DDRS-B journal voucher adjustments to the USD(C)/CFO and the Army on the Second Quarter FY 2010 Journal Voucher Metric Report. The Second Quarter FY 2010 Quarterly Financial Reporting Guidance issued by the USD(C)/CFO required that information about all journal vouchers recorded in the preparation of monthly, quarterly, and annual reports be submitted in a quarterly metric report. DFAS and DoD management can use the journal voucher metric report to monitor DoD progress in reducing unsupported accounting adjustments. DFAS Indianapolis personnel did not report the DDRS-B journal voucher adjustments on the metric report because DFAS officials interpret the guidance as not pertaining to DDRS-B journal voucher adjustments. DFAS Indianapolis personnel should include DDRS-B journal voucher adjustment information in the metric reports. Complete reports would allow DoD financial managers and auditors to determine DFAS Indianapolis' compliance with DoD FMR journal voucher support requirements.

## Abnormal Account Balances Were Not Identified and Corrected

DFAS Indianapolis personnel did not identify and correct $6.4 billion of GLAC abnormal balances contained in the General Fund Enterprise Business System (GFEBS) feeder file and $28.5 billion of abnormal balance in the March 2010 export file. A GLAC balance is abnormal if it did not agree with the debit or credit balance in the USSGL chart of accounts. GFEBS GLAC balances are included in the amounts reported on the AGF financial statements. The March 2010 GFEBS feeder file contained $6.4 billion in abnormal GLAC balances. In addition, the export file contained $28.5 billion in abnormal account balances after DDRS-B completed the processing of March 2010 data. For example, the March 2010 export file included $1.4 billion in abnormal balances for

GLAC 2110-Accounts Payable. Abnormal balances in Accounts Payable indicate disbursements in excess of accruals, or in the absence of disbursements, negative accruals. DFAS Indianapolis personnel indicated that DDRS-B does a system check for abnormal balances. However, this was not an effective control because DDRS-B only checks for abnormal balances appearing on the AGF SF 133 and Accounting Report (M) 1002 reports, and not in the trial balance feeder files accepted for DDRS-B processing. DFAS Indianapolis did not identify and correct the AGF abnormal balances because DFAS Indianapolis Regulation 37-1, "Finance and Accounting Policy Implementation" guidance, and the DFAS Indianapolis SOP on identification and correction of abnormal balances were inadequate.

Specifically, DFAS Indianapolis Regulation 37-1 did not require detection and correction of budgetary abnormal balances in monthly trial balances and was not specific as to when accounting activities needed to be notified about proprietary abnormal balances. DFAS Indianapolis personnel included the current notification requirements in DFAS Indianapolis Regulation 37-1 in response to a previously issued recommendation in DoD Inspector General (DoD IG) Report No. D-2004-118, "Financial Management: Army General Fund Controls Over Abnormal Balances for Field Accounting Activities," September 28, 2004. In that report we recommended that the Director of DFAS Indianapolis update DFAS Indianapolis Regulation 37-1 to require DFAS Indianapolis to notify the accounting activities of abnormal balances contained in their monthly trial balances and require explanations of the corrective actions taken by accounting activities to resolve the abnormal balances. However, the DFAS Indianapolis changes to DFAS Indianapolis Regulation 37-1 were not sufficient to implement our previous recommendation. DFAS Indianapolis personnel should revise DFAS Indianapolis Regulation 37-1, to include requirements for abnormal balance detection and correction for proprietary and budgetary general ledger accounts.

*DFAS Indianapolis personnel should revise DFAS Indianapolis Regulation 37-1, to include requirements for abnormal balance detection and correction for proprietary and budgetary general ledger accounts.*

DFAS Indianapolis issued SOP No. 1101, "AFS General Ledger Feeder File Processing," June 30, 2011; however, it was inadequate because it did not mention abnormal balances. DFAS Indianapolis personnel explained that DFAS Indianapolis accountants review and correct abnormal balances on a case-by-case basis once DDRS-B trial balances are generated. This undocumented procedure was ineffective because DFAS Indianapolis personnel did not detect and correct $28.5 billion in abnormal account balances in the March 2010 export file. DFAS Indianapolis personnel should revise SOP No. 1101 to ensure the detection and correction of abnormal balance conditions.

## Continued Use of Budgetary Status Data Rather Than U.S. Government Standard General Ledger Transaction Data

DFAS Indianapolis personnel continued to use the RDT formatted budgetary status data contained in DDRS-B feeder files rather than USSGL formatted data as required by the FFMIA. This occurred because the Army did not have a single standard transaction-driven general ledger for the AGF. DoD IG Report No. D-2006-114, "Budget Execution Reporting at Defense Finance and Accounting Service Indianapolis," September 25, 2006, reported the Army's reliance on RDT formatted data. OMB issued Circular A-127 to implement FFMIA. The Circular states, "Financial events shall be recorded applying the requirements of the U.S. Government Standard General Ledger (USSGL)." The Army acknowledged in its FY 2010 Annual Statement of Assurance that the lack of a single, standard transaction-driven general ledger would prevent the Army from preparing auditable financial statements.

DDRS-B crosswalks the RDT formatted budgetary status data to USSGL formatted budgetary and proprietary GLACs, and then uses the converted data to create both Army budget execution reports and the export file used to prepare the AGF financial statements. This process is not compliant with the requirements of FFMIA and OMB Circular A-127. However, to comply with these requirements, the Army began fielding GFEBS in 2008 and plans to complete deployment to all Army activities by July 2012.

When fielded, the activities will concurrently use GFEBS and the legacy accounting systems. However, the Army's planned use of GFEBS will not eliminate DFAS Indianapolis personnel use of RDT formatted budgetary status data for financial statement preparation. DoD IG Report No. D-2008-041, "Management of the General Fund Enterprise Business System," January 14, 2008, identified that the Army did not plan to convert all legacy accounting data into GFEBS. The report recommended that the Assistant Secretary of the Army (Financial Management and Comptroller) prepare a detailed data conversion plan within 30 days of completing the blueprint of GFEBS. However, the Army did not implement the recommendation and the DoD OIG performed a followup audit. DoD IG Report No. D-2011-072, "Previously Identified Deficiencies Not Corrected in the General Fund Enterprise Business System Program," June 15, 2011, recommended that the Assistant Secretary of the Army (Financial Management and Comptroller) ensure that the GFEBS Program Management Office prepare a detailed data conversion plan. In response to the report recommendations, Army commented that they would prepare a concept of operations document and the DoD OIG auditors reported that management's comments were responsive. Consequently, we are not making any additional recommendations on the Army's data conversion plan in this report.

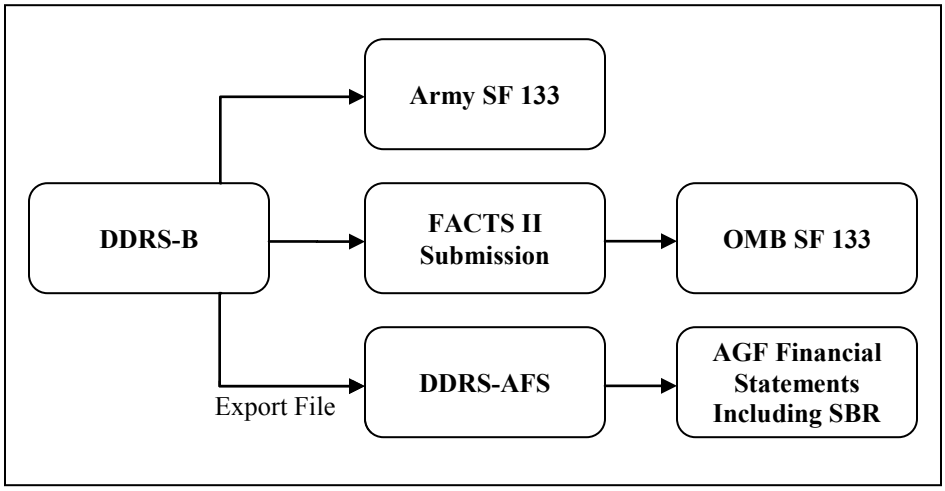
## Variances Between Budget Execution Reports Were Not Reconciled and Corrected

DFAS Indianapolis personnel reported different Second Quarter FY 2010 AGF budget execution data on standard reports submitted to the Department of the Treasury than it

reported on the SBR. DFAS Indianapolis personnel prepared the Army SF 133 in DDRS-B using financial data submitted by DoD field accounting activities and other sources. DFAS Indianapolis personnel also submitted quarterly budget execution data to the Department of the Treasury using Federal Agencies' Centralized Trial-Balance System II (FACTS II). OMB used the data submitted to the Department of the Treasury to prepare the Government-wide SF 133. DFAS Indianapolis personnel prepared the SBR quarterly, which is included as a basic financial statement in the Department of the Army Annual Financial Report.

There were $1.2 billion (absolute value) in variances between AGF amounts reported on the Second Quarter FY 2010 OMB SF 133 and the AGF SBR. OMB Circular No. A-136 Revised, "Financial Reporting Requirements," June 10, 2009 (OMB Circular A-136), requires that information on the SBR be consistent with budget execution information reported on the SF 133. Figure 2 summarizes the flow of Army budget execution data.

**Figure 2. Flow of Army Budget Execution Data**




The Army SF 133 and OMB SF 133 varied from information reported on the AGF SBR. The reports differed because the journal voucher adjustments recorded in DDRS-AFS reflected only in the AGF SBR, not the Army and OMB SF 133. The variances add to the uncertainty about the validity of amounts reported in the Army SF 133, OMB SF 133, and AGF SBR.

DoD IG Report No. D-2006-114 reported existence of variances between AGF budget execution reports and the SBR. This report made recommendations to the Director, DFAS Indianapolis including developing and executing SOPs to:

- Perform a quarterly reconciliation among the amounts reported on the Army SF 133, OMB SF 133, and the AGF SBR and related footnotes; and

- Adjust the amounts submitted to the Department of the Treasury based on adjustments recorded as part of the compilation of the AGF SBR.

The SOP DFAS Indianapolis personnel implemented in response to our recommendations did not contain procedures to adjust the amounts submitted to the Department of the Treasury for OMB SF 133 preparation and reported on the Army SF 133 to reflect adjustments recorded in DDRS-AFS in the AGF SBR compilation process. It did contain procedures to reconcile the Army SF 133, OMB SF 133, and AGF SBR. However, reconciliations performed did not eliminate the variances between the reports. DFAS Indianapolis personnel should implement procedures to eliminate variances between the Army SF 133, OMB SF 133, and AGF SBR in accordance with OMB Circular A-136.

## Conclusion

DFAS Indianapolis management did not effectively implement DDRS-B for the AGF. Specifically, for March 2010 reporting, DFAS Indianapolis personnel did not have adequate support for the AGF financial data processed in DDRS-B. In addition, DFAS Indianapolis personnel continued to use AGF budgetary data in the RDT format rather than the required USSGL formatted data. These control deficiencies created uncertainty about the validity of the $2.1 trillion reported in the March 2010 export file and amounts reported on the AGF financial statements and budget execution reports. Unless the control deficiencies are corrected, Army may not be able to meet the mandated 2014 SBR and FY 2017 DoD financial statement audit readiness deadlines. DFAS Indianapolis procedures used to process AGF data in DDRS-B have not changed from March 2010.

## Recommendations, Management Comments, and Our Response

**1. We recommend that the Assistant Secretary of the Army (Financial Management and Comptroller) coordinate with Director, Defense Finance and Accounting Service, Indianapolis to:**

**a. Update Army's Office of Management and Budget Circular A-123 documentation to include process narratives and controls for Defense Departmental Reporting System-Budgetary financial reporting system processes.**

### *Department of the Army Comments*

The Deputy Assistant Secretary of the Army (Financial Operations) agreed and stated that his office has already coordinated with DFAS to include DDRS-B processes and controls in the Financial Reporting assessable unit process documentation.

### *Our Response*

The Deputy Assistant Secretary of the Army (Financial Operations) comments were responsive and no additional comments are required.

**b. Review and approve Defense Departmental Reporting System-Budgetary journal vouchers adjustments over $1 billion.**

## *Department of the Army Comments*

The Deputy Assistant Secretary of the Army (Financial Operations) agreed and stated that his office will add the requirement for journal voucher approval to its Journal Voucher SOP by March 30, 2012, and will have the Director, Financial Reporting, sign them in April 2012. He also stated that the majority of the DDRS-B journal vouchers DFAS prepared relate to ensuring the data are in the correct format for consolidated (GFEBS and Legacy) budget reports and do not materially affect the audited financial statements.

## *Our Response*

The Deputy Assistant Secretary of the Army (Financial Operations) comments were responsive. We did not examine specific DDRS-B journal vouchers over $1 billion to determine whether they affected balances in the audited financial statements or were recorded to correct formatting. We subsequently contacted the Army to obtain the Journal Voucher SOP mentioned in the Deputy Assistant Secretary of the Army (Financial Operations) response. The Army provided a draft version of its Journal Voucher SOP on May 23, 2012. The Army indicated that the draft SOP was subject to further revision and would be signed after the last wave of GFEBS was implemented or at the end of FY 2012. The draft SOP addressed our recommendation for Army review and approval procedures for DDRS-B journal vouchers over $1 billion, therefore no additional comments are required.

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

**a. Document the Defense Departmental Reporting System-Budgetary processes and controls to comply with Office of Management and Budget Circular A-123.**

## *DFAS Comments*

The Acting Director, DFAS Indianapolis agreed and stated that his office will collaborate with the Defense Logistics Agency DDRS-B Project Management Office to produce a DDRS-B end-to-end system process flow to comply with Office of Management and Budget Circular A-123. The estimated completion date is November 30, 2012.

**b. Retain complete and accurate final Defense Departmental Reporting System-Budgetary Feeder File Inventory Control Reports for at least 3 years.**

## *DFAS Comments*

The Acting Director, DFAS Indianapolis agreed and stated that complete budgetary feeder file inventory control reports should be retained. He also stated that a system change request is required to correct the current condition that the inventory control report is incomplete and does not include all DoD Component feeder file submissions. The estimated completion date is November 30, 2012.

**c. Establish written procedures to provide auditors requested data, such as the feeder files, within a reasonable number of business days.**

### *DFAS Comments*

The Acting Director, DFAS Indianapolis agreed and stated that a written procedure will be prepared that outlines the process and facilitates file distribution to auditors within a reasonable number of business days. He also stated that DFAS established a working group in November 2011 addressing the issue of volume of data, fields and record retrieval, and the warehousing of the data. DFAS is collaborating with DLA to establish a process for strong and maintaining feeder files. The estimated completion date is November 30, 2012.

**d. Establish written procedures to retain Defense Departmental Reporting System-Budgetary feeder files in accordance with U.S. National Archives and Records Administration standards and ensure the feeder files are readily available for financial statement audits.**

### *DFAS Comments*

The Acting Director, Defense DFAS Indianapolis agreed and stated that DFAS will prepare written procedures to retain DDRS-B feeder files in accordance with U.S. National Archives and Records Administration standards. He also stated that he agrees that feeder files should be readily available for financial statement audits and that written procedures are being prepared that address document retention. The estimated completion date is November 30, 2012.

**e. Maintain records of and support for Electronic Error Correction and Transaction Analysis adjustments processed to Army General Fund data in accordance with the DoD Financial Management Regulation.**

### *DFAS Comments*

The Acting Director, DFAS Indianapolis agreed and stated that DFAS Indianapolis will maintain support for ELECTRA adjustments processed to Army General Fund data in accordance with the DoD FMR. He also stated that DFAS Indianapolis will prepare written procedures to document the original and post edit ELECTRA adjustments. The estimated completion date is November 30, 2012.

**f. Include the number and amount of Electronic Error Correction and Transaction Analysis adjustments made to Army General Fund financial data on the quarterly metric report submitted to Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD.**

### *DFAS Comments*

The Acting Director, DFAS Indianapolis agreed and stated that DFAS Indianapolis will include the number and amount of ELECTRA adjustments to Army General Fund

financial data on the quarterly metric report submitted to the USD(C)/CFO. The estimated completion date is November 30, 2012.

**g. Add procedures on Defense Departmental Reporting System-Budgetary journal voucher preparation and approval to the existing journal voucher preparation standard operating procedure to ensure they are adequately supported, contain evidence of review coordination with Army officials when amounts exceed $1 billion, and reported on the journal voucher metric reports to the Under Secretary of Defense (Comptroller)/ Chief Financial Officer, DoD, and the Army.**

### *DFAS Comments*

The Acting Director, DFAS Indianapolis agreed. He stated that DFAS Indianapolis has implemented standard operating procedures on DDRS-B journal voucher preparation and approval to ensure they are adequately supported and coordinated with Army in accordance with the DoD FMR. He also stated that DDRS-B journal vouchers will be included in the journal voucher metric report provided to the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, and the Army. The estimated completion date is November 30, 2012.

**h. Revise Defense Finance and Accounting Service Indianapolis Regulation 37-1, to include requirements for abnormal balance detection and correction for proprietary and budgetary general ledger accounts.**

### *DFAS Comments*

The Acting Director, DFAS Indianapolis agreed and stated that DFAS Indianapolis will revise DFAS-IN Regulation 37-1, to include requirements for abnormal balance detection and correction of proprietary and budgetary general ledger accounts. The estimated completion date is November 30, 2012.

**i. Revise Defense Finance and Accounting Service Indianapolis Standard Operating Procedure No. 1101 to ensure the detection and correction of abnormal balance conditions.**

### *DFAS Comments*

The Acting Director, DFAS Indianapolis agreed and stated that DFAS Indianapolis will update Standard Operating Procedure No. 1101 to include current procedures performed for detecting and correcting abnormal balance conditions. He also summarized the current procedures and stated that DFAS Indianapolis will correct, report, and resolve, where possible, material proprietary and budgetary abnormal balances. The estimated completion date is November 30, 2012.

**j. Implement procedures to eliminate variances between the Army Standard Form 133, Office of Management and Budget Standard Form 133, and the Army General Fund Statement of Budgetary Resources.**

### *DFAS Comments*

The Acting Director, DFAS Indianapolis agreed with the recommendation. He stated his agreement, in theory, with eliminating all variances between the Army Standard Form 133 (Army SF 133), the OMB Standard Form 133 (OMB SF 133), and the Army Statement of Budgetary Resources (SBR). However, report timing does not allow retroactive adjustments to OMB SF 133. He stated that DFAS will develop procedures to identify errors and timing differences that cause variances between the SF 133 and SBR. He added that the written procedures will include steps to identify, research, document, and, where possible, correct errors contributing to variances. The estimated completion date is November 30, 2012.

### *Our Response*

The Acting Director, DFAS Indianapolis comments were responsive and no additional comments are required.

# Appendix. Scope and Methodology

We conducted this performance audit from May 2010 through February 2012 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives.

During the audit, we:

- reviewed DFAS Indianapolis DDRS-B AGF data processing inputs and outputs for March 2010. We obtained and reviewed the available March 2010 DDRS-B feeder files and the March 2010 DDRS-B Feeder File Inventory Control Report;

- obtained the available business rules describing DFAS Indianapolis processing of AGF data in DDRS-B and used them to trace amounts from the feeder files to the feeder file inventory control report and to amounts appearing in DDRS-B;

- reviewed March 2010 DDRS-B AGF ELECTRA adjustments and journal voucher adjustments processed by DFAS Indianapolis personnel;

- Reviewed the March 2010 GFEBS feeder file and export file for abnormal balances;

- compared the AGF amounts reported on the Second Quarter FY 2010 OMB SF 133 to the amounts reported on the Second Quarter FY 2010 AGF SBR; and

- conducted interviews of DFAS Indianapolis and BTA personnel responsible for the implementation of DDRS-B for the AGF.

In addition, we followed up on the DFAS Indianapolis personnel implementation of recommendations made in DoD IG Report No. D-2004-118 and DoD IG Report No. D-2006-114.

Through DDRS-B queries in May 2011 and subsequent discussions with DFAS Indianapolis personnel, we concluded that DFAS Indianapolis procedures used to process AGF data in DDRS-B have not changed from March 2010.

## Use of Computer-Processed Data

To perform this audit, we used March 2010 feeder files from Army legacy systems, Corps of Engineers Financial Management System, GFEBS, and ELECTRA input into DDRS-B. We used trial balances, budget execution reports, and the export file generated by DDRS-B. We also used the Second Quarter FY 2010 OMB SF 133 and AGF SBR. We reviewed the format of the feeder file records and determined whether they contained GLACs or RDTs. In addition, we reviewed the GFEBS feeder file for the existence of

abnormal balances. We compared the AGF amounts reported on the Second Quarter FY 2010 OMB SF 133 to the Second Quarter FY 2010 AGF SBR.

We were unable to attest to the reliability of computer-processed data reported in the AGF financial statements because DFAS Indianapolis did not provide all of the DoD OIG requested DDRS-B system documentation, feeder files, feeder file inventory control reports, and supporting documentation for ELECTRA adjustments. However, we determined that the computer-processed data we did obtain was sufficiently reliable for determining whether DDRS-B was effectively implemented. Specifically, we compared the data obtained to the data requested to determine that the DDRS-B financial reporting controls and audit trails were inadequate. Accordingly, the data we obtained supports the finding and conclusions in this report.

## Prior Coverage

During the last seven years, the DoD OIG has issued the following seven reports related to DDRS-B and the processing of Army General Fund data. Unrestricted DOD IG reports can be accessed at http://www.dodig.mil/audit/reports.

### *DoD IG*

DoD IG Report No. D2011-072, "Previously Identified Deficiencies Not Corrected in the General Fund Enterprise Business System Program," June 15, 2011

DoD IG Report No. D-2008-041, "Management of the General Fund Enterprise Business System," January 14, 2008

DoD IG Report No. D-2007-087, "Internal Controls over Army General Fund Transactions Processed by the Business Enterprise Information Services," April 25, 2007

DoD IG Report No. D-2006-114, "Budget Execution Reporting at Defense Finance and Accounting Service Indianapolis," September 25, 2006

DoD IG Report No. D-2006-068, "Implementation of the Business Enterprise Information Services for the Army General Fund," March 31, 2006

DoD IG Report No. D-2006-033, "Defense Finance and Accounting Service Corporate Database User Access Controls," December 7, 2005

DoD IG Report No. D-2004-118, "Army General Fund Controls Over Abnormal Balances for Field Accounting Activities," September 28, 2004

# Department of the Army Comments

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

REPLY TO
ATTENTION OF

MAR 16 2012

MEMORANDUM FOR Assistant Inspector General for Audit, Department of Defense Inspector General, 4800 Mark Center Drive, Alexandria, VA 22350-1500

SUBJECT: Army Response to Draft Report Project No. D2010-D000FL-0214.000, Defense Departmental Reporting System-Budgetary Was Not Effectively Implemented for the Army General Fund; dated February 16, 2012

1. Enclosed is our response to Recommendations 1.a. and 1.b. in the subject draft report. The draft report recommends that we coordinate with Director, Defense Finance and Accounting Service, Indianapolis (DFAS-IN) to update Army's Office of Management and Budget Circular A-123 documentation to include Defense Departmental Reporting System-Budgetary (DDRS-B) financial reporting system processes, and we review and approve DDRS-B journal vouchers (JV) adjustments over $1 billion.

2. We have coordinated with DFAS to ensure DDRS-B processes and controls are included in the Financial Reporting assessable unit process documentation. The Financial Reporting assessable unit will be included in the FY 2012 audit examination of nine business processes at General Fund Enterprise Business System (GFEBS) waves 1 and 2 sites.

3. We began reviewing DDRS-B JVs in April 2011. The majority of adjustments relate to ensuring the consolidated GFEBS and legacy budget reporting information is correct. We have not taken steps to approve the JVs but will add the requirement to our Journal Voucher standard operating procedure (SOP) and begin approving them in April 2012.

4. My point of contact for this action is [redacted]. She can be reached by e-mail at [redacted] or by telephone at [redacted]

Enclosure

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

Printed on Recycled Paper

Enclosure: Official Comments

Defense Departmental Reporting System-Budgetary Was Not Effectively Implemented for the Army General Fund
Project No. D2010-D000FL-0214.000

Recommendation 1.

We recommend that the Assistant Secretary of the Army (Financial Management and Comptroller) coordinate with Director, Defense Finance and Accounting Service, Indianapolis to:

a. Update Army's Office of Management and Budget Circular A-123 documentation to include process narratives and controls for Defense Departmental Reporting System-Budgetary financial reporting system processes.

**Army Response: Concur.** We have already coordinated with DFAS to include DDRS-B processes and controls in the Financial Reporting assessable unit process documentation. The Financial Reporting assessable unit will be included in the FY 2012 audit examination by an independent public accounting firm who will review nine business processes at GFEBS deployment waves 1 and 2. The assessable unit will also be addressed in the FY 2013 audit examination of all GFEBS activity and included in the Army General Fund Statement of Budgetary Resources audit readiness assertion on June 30, 2014.

b. Review and approve Defense Departmental Reporting System-Budgetary journal vouchers adjustments over $1 billion.

**Army Response: Concur.** The majority of the DDRS-B journal vouchers (JVs) DFAS prepared relate to ensuring the data are in the correct format for consolidated (GFEBS and Legacy) budget reports and do not materially affect the audited financial statements. These JVs have been a part of our monthly review process since we began the GFEBS General Ledger Corrective Action Plan work in April 2011. We have not taken steps to approve them but will add the requirement to our Journal Voucher SOP by 30 March 2012. We will have the Director, Financial Reporting sign them in April 2012.

# Defense Finance and Accounting Service Comments

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

APR 06 2012

DFAS-JBK/IN

MEMORANDUM FOR DIRECTOR, DEPARTMENT OF DEFENSE, OFFICE OF INSPECTOR GENERAL

SUBJECT: DoD IG Draft Report – Defense Departmental Reporting System-Budgetary Was Not Effectively Implemented for the Army General Fund – Project No. D2010-D000FL00214.000

The Defense Finance and Accounting Service-Indianapolis (DFAS-IN) is providing management comments to recommendations contained in the subject draft audit report along with estimated completion dates.

My point of contact for this action is [redacted] who can be reached at [redacted]

Aaron P. Gillison
Acting Director, DFAS Indianapolis

Attachment:
As stated

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

**Recommendation 2a.** Document the Defense Departmental Reporting System-Budgetary (DDRS-B) end-to-end system process flow to comply with the Office of Management and Budget Circular A-123.

**Management comment 2a.** Concur. DFAS agrees that the DDRS-B end-to-end system process flows should be documented in accordance with Office of Management and Budget (OMB) Circular A-123. DFAS will collaborate with Defense Logistics Agency (DLA) DDRS-B Project Management Office (PMO) to produce a DDRS-B end-to-end system process flow to comply with the Office of Management and Budget Circular A-123.

**Estimated Completion Date:** November 30, 2012

**Recommendation 2b.** Retain complete Defense Departmental Reporting System-Budgetary Feeder File Inventory Control Reports for at least 3 years.

**Management comment 2b.** Concur. DFAS agrees that complete budgetary feeder file inventory control reports should be retained. Currently, the inventory control report is incomplete and does not include all Department of Defense (DOD) Component feeder file submissions. A system change request is required to correct the condition. DFAS has established a storage location on our network shared drive to comply with the recommendation.

**Estimated Completion Date:** November 30, 2012

**Recommendation 2c.** Establish written procedures to provide auditors requested data, such as the feeder files, within a reasonable number of business days.

**Management comment 2c.** Concur. DFAS established a working group in November, 2011 addressing the issue of volume of data (approximately 40 million records per month), files and record retrieval, and warehousing of the data. DFAS is collaborating with DLA to establish a process for storing and maintaining feeder files. A written procedure that outlines the process and facilitates file distribution to auditors within a reasonable number of business days will be prepared.

**Estimated Completion Date:** November 30, 2012

**Recommendation 2d.** Establish written procedures to retain Defense Departmental Reporting System-Budgetary feeder files in accordance with U.S. National Archives and Records Administration standards and ensure the feeder files are readily available for financial statement audits.

**Management comment 2d.** Concur. DFAS agrees and will prepare written procedures to retain DDRS-B feeder files in accordance with U.S. National Archives and Records Administration standards. DFAS also agrees feeder files should be readily available for financial statement audits. Written procedures are being prepared that address document retention.

**Estimated Completion Date:** November 30, 2012

**Recommendation 2e.** Maintain records of and support for Electronic Error Correction and Transaction Analysis adjustments processed to Army General Fund data in accordance with the DoD Financial Management Regulation.

**Management comment 2e.** Concur. DFAS will maintain support for Electronic Error Correction and Transaction Analysis (ELECTRA) adjustments processed to Army General Fund data in accordance with the DoD Financial Management Regulation (DoDFMR). ELECTRA was established to maintain internal control checks with legacy systems (e.g. STANFINS & SOMARDS) for effectively and efficiently maintaining data integrity on a large scale based upon set criteria and conditions. These criteria and conditions are fixed, supported and based upon regulatory guidance that includes the DoDFMR. Funding adjustments are supported by the source system, specifically the Program Budget Accounting System (PBAS) and external paper funding files from the Army Budget Office and the US Army Finance Command (FINCOM). DFAS will prepare written procedures to document the original and post edit ELECTRA adjustments.

**Estimated Completion Date:** November 30, 2012

**Recommendation 2f.** Include the number and amount of Electronic Error Correction and Transaction Analysis adjustments made to Army General Fund financial data on the quarterly metric report submitted to the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DOD.

**Management comment 2f.** Concur. DFAS will include the number and amount of ELECTRA adjustments to Army General Fund financial data on the quarterly metric report submitted to the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DOD.

**Estimated Completion Date:** November 30, 2012

**Recommendation 2g.** Add procedures on Defense Departmental Reporting System-Budgetary journal voucher preparation and approval to the existing journal voucher preparation standard operating procedure to ensure they are adequately supported, contain evidence of review coordination with Army officials when amounts exceed $1 billion, and reported on the journal voucher metric reports to the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, and the Army.

**Management comment 2g.** Concur. DFAS has implemented standard operating procedures for DDRS-B journal voucher preparation and approval. The procedures will ensure that journal vouchers are supported and coordinated with the Army in accordance with the DoD FMR. The DDRS-B journal vouchers will be included in the journal voucher metric reports provided to the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, and the Army.

**Estimated Completion Date:** November 30, 2012

**Recommendation 2h.** Revise Defense Finance and Accounting Service Indianapolis Regulation 37-1, to include requirements for abnormal balance detection and correction for all proprietary and budgetary general ledger accounts.

**Management comment 2h.** Concur. DFAS-IN Regulation 37-1 will be revised to include requirements for abnormal balance detection and correction of proprietary and budgetary general ledger accounts.

**Estimated Completion Date:** November 30, 2012

**Recommendation 2i.** Revise Defense Finance and Accounting Service Indianapolis Standard Operating Procedure No. 1101 to ensure the detection and correction of abnormal balance conditions.

**Management comment 2i.** Concur. DFAS will update SOP No. 1101 to include current procedures performed for detecting and correcting abnormal balance conditions. These procedures consist of identifying and researching abnormal balances at the entity level trial balance as well as the consolidated financial reports. We will correct, report, and resolve, where possible, material proprietary and budgetary abnormal balances.

**Estimated Completion Date:** November 30, 2012

**Recommendation 2j.** Implement procedures to eliminate variances between the Army Standard Form 133, Office of Management and Budget Standard Form 133, and the Army General Fund Statement of Budgetary Resources.

**Management comment 2j.** Concur. DFAS agrees, in theory, with eliminating all variances between the Army Standard Form 133 (Army SF 133), OMB Standard Form 133 (OMB SF133), and the Army General Fund Statement of Budgetary Resources (SBR). However, report timing does not allow retroactive adjustments to OMB SF133. Instead, DFAS performs a quarterly reconciliation between OMB SF133 to SBR and OMB SF133 to Army SF133. We will develop procedures to identify errors and timing differences that cause variances between the SF 133 and SBR. Written procedures will include steps to identify, research, document, and, where possible, correct errors contributing to variances.

**Estimated Completion Date:** November 30, 2012

# Inspector General
## Department of Defense