Audit Report

OFFICE OF THE INSPECTOR GENERAL

STATEMENT OF FINANCIAL POSITION FOR THE COMMISSARY RESALE STOCK FUND, AS OF SEPTEMBER 30, 1994

Report No. 95-228

June 8, 1995

Department of Defense

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Acronyms

DeCA	Defense Commissary Agency
DFAS-CO	Defense Finance and Accounting Service-Columbus Center, Columbus, Ohio
STANFINS	Standard Finance System
OMB	Office of Management and Budget

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884

June 8, 1995

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER) AND CHIEF FINANCIAL OFFICER OF THE DEPARTMENT OF DEFENSE
DIRECTOR, DEFENSE COMMISSARY AGENCY
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE

SUBJECT: Audit Report on the Statement of Financial Position for the Commissary Resale Stock Fund, as of September 30, 1994 (Report No. 95-228)

We are providing this report for your review and comment, and for use by the Congress. Financial statement audits are required by the Chief Financial Officers Act of 1990. Office of Management and Budget Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993, requires the Inspector General, DoD, to report on the adequacy of internal controls and compliance with laws and regulations and express an opinion on the fairness of the presentation of the financial statements. Comments from the Defense Commissary Agency and Defense Finance and Accounting Service were considered in the preparation of this report.

We are unable to render an opinion on the Statement of Financial Position for the Commissary Resale Stock Fund, because an internal control structure was not established to provide reasonable assurance that material misstatements would be prevented or detected in a timely manner. Our disclaimer of opinion is based on the Statement of Financial Position as of September 30, 1994.

DoD Directive 7650.3, requires that all recommendations be resolved promptly. Therefore, we request that the Defense Commissary Agency provide additional comments on the unresolved recommendations discussing systematic reviews of merchandise transfers between the Defense Commissary Agency organizations and procedures to control the entry of merchandise receipts, by August 8, 1995. The Defense Finance and Accounting Service comments were responsive and no further comments are necessary.

The courtesies extended to the audit staff are appreciated. If you have any questions about this audit, please contact Mr. Robert J. Ryan, Audit Program Director, at (703) 604-9418 (DSN 664-9418) or Mr. Walter R. Loder, Audit Project Manager, at (703) 604-9413 (DSN 664-9413). The distribution of this report is in Appendix D. The audit team members are listed on the inside back cover.

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Office of the Inspector General, DoD

Report No. 95-228 **June 8, 1995**
(Project No. 5LA-2002)

Statement of Financial Position for the Commissary Resale Stock Fund, as of September 30, 1994

EXECUTIVE SUMMARY

Introduction. The Commissary Resale Stock Fund, which is part of the Defense Business Operations Fund, receives cash primarily from sales of grocery items to commissary patrons and disburses cash to pay for grocery items to replenish merchandise inventory. The Defense Commissary Agency (DeCA) manages the Commissary Resale Stock Fund while the Defense Finance and Accounting Service-Columbus Center, Columbus, Ohio (DFAS-CO), provides most accounting services. As of September 30, 1994, DeCA reported on the Statement of Financial Position that the Commissary Resale Stock Fund had $756 million in assets and $653.3 million in liabilities. We performed this audit in response to the Chief Financial Officers Act. A draft of this report was issued on April 19, 1995.

Objectives. The objectives of the audit were to determine whether the September 30, 1994, Statement of Financial Position accounts present fairly the financial position of the Commissary Resale Stock Fund in accordance with Office of Management and Budget Bulletin No. 94-01, "Form and Content of Agency Financial Statements," November 16, 1993. We evaluated the DeCA and DFAS-CO internal control structure for ensuring that material misstatements were prevented or detected in asset and liability account balances as well as their compliance with applicable laws and regulations that have a direct and material effect on the financial statement.

Scope and Methodology. We examined the Statement of Financial Position and related notes for the Commissary Resale Stock Fund. Other principal statements and related notes prepared by DeCA, but not examined by us, include the Statement of Operations, Statement of Cash Flows, and Statement of Budget and Actual Expense. The Statement of Financial Position reflects the asset and liability general ledger account balances. For each of the general ledger account balances, we evaluated the internal control structure over transaction processing and recording at DeCA and DFAS-CO. We verified or attempted to verify balances to subsidiary records and supporting source documentation either generated by accounting systems or by related logistical systems. We reviewed computer-processed data from DeCA and DFAS organizations. We independently verified the source data for selected transactions but not in sufficient quantities to draw conclusions on the overall reliability of the computer-processed data. The Statement of Financial Position upon which we made our review was submitted to us on December 30, 1994.

Disclaimer of Opinion. We are unable to render an opinion on the Statement of Financial Position for the Commissary Resale Stock Fund, as of September 30, 1994, because an internal control structure over accounts receivable, inventory, and accounts payable was not established to provide reasonable assurance that material misstatements would be prevented or detected in a timely manner.

Findings on Internal Controls. The DeCA and DFAS-CO internal control structure for the Commissary Resale Stock Fund did not provide reasonable assurance that material misstatements would be prevented or detected in a timely manner.

o The internal control structure over transaction processing and general ledger recordings did not provide reasonable assurance of an accurate accounts receivable balance. As a result, the $85.4 million Accounts Receivable - Transactions With Federal Entities balance and the $91.6 million Accounts Receivable - Transactions With Non-Federal Entities balance as of September 30, 1994, are probably materially misstated (Finding A).

o The internal control structure over transaction processing and general ledger recordings did not provide reasonable assurance of an accurate inventory balance. As a result, the $574.7 million inventory balance as of September 30, 1994, reflected loss adjustments of $55.4 million and are probably materially misstated. Also, DeCA could not determine the amount of misstatement in inventory as of September 30, 1994. (Finding B).

o The internal control structure over transaction processing and general ledger recordings did not provide reasonable assurance of an accurate Accounts Payable - Transactions With Federal Entities balance. As a result, the $166 million accounts payable balance as of September 30, 1994, are probably materially misstated (Finding C).

DeCA has made improvements in its financial and accounting practices, and DFAS-CO has recognized the need for accounting system improvements. The DeCA and DFAS-CO internal management control program also needs to be improved to ensure the effective processing and recording of assets and liabilities. A discussion of the controls assessed and the material internal control weaknesses identified is in Part II.A.

Findings on Compliance With Laws and Regulations. Instances of noncompliance with laws and regulations that materially affected the reliability of the Statement of Financial Position for the Commissary Resale Stock Fund existed. Except for laws and regulations dealing with the form and content of financial statements, all instances of material noncompliance and their effect on the Statement of Financial Position are discussed in Part II.A. Part II.B. contains our report on compliance with laws and regulations.

Summary of Recommendations. We recommend that management establish audit trails and subsidiary ledgers to support the processing and recording of assets and liabilities of the Commissary Resale Stock Fund. We also recommend measures to improve accounting for merchandise transfers and control of receipts.

Management Comments. The Chief of Staff, DeCA, agreed to establish audit trails and subsidiary ledgers to improve financial reporting, but did not agree to perform systematic reviews of merchandise transfers between DeCA organizations or to implement procedures to control the entry of merchandise receipts. The Deputy Director for Business Funds, DFAS, comments were responsive. A discussion of the management comments is in Part II.A. and the complete text is in Part IV.

Audit Response. We request that DeCA provide additional comments on the recommendations to monitor merchandise transfers and control the entry of merchandise receipts by August 8, 1995.

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Part I - Disclaimer of Opinion

Disclaimer of Opinion

We are unable to render an opinion on the Statement of Financial Position and related notes for the Commissary Resale Stock Fund, as of September 30, 1994. Our disclaimer of opinion is based on the Statement of Financial Position and related notes submitted to us on December 30, 1994. Although the Defense Commissary Agency (DeCA) has made a commitment to improving financial management of the Commissary Resale Stock Fund, a weak internal control structure prevented us from performing an audit of the general ledger balances.

o The internal control structure for processing and recording transactions in the accounts receivable general ledger accounts did not conform to key DoD accounting requirements, and the Accounts Receivable - Transactions With Federal Entities balance of $85.4 million and Accounts Receivable - Transactions With Non-Federal Entities balance of $91.6 million reported as of September 30, 1994, could be materially misstated (Finding A).

o The internal control structure for processing and recording transactions in the inventory general ledger accounts did not conform to key DoD accounting requirements, and the inventory balance of $574.7 million reported as of September 30, 1994, reflected loss adjustments of $55.4 million and could be materially misstated. Additionally, DeCA could not determine the amount of misstatement in inventory as of September 30, 1994 (Finding B).

o The internal control structure for processing and recording transactions in Accounts Payable - Transactions With Federal Entities did not conform to key DoD accounting requirements, and the accounts payable balance of $166 million reported as of September 30, 1994, could be materially misstated (Finding C).

It was not practical or efficient for us to perform, nor did we perform, other auditing tests to determine the validity of the reported balances. Because we were unable to determine the proper values of material asset and liability account balances, the scope of our work was not sufficient to enable us to express, therefore, we do not express, an opinion on the Statement of Financial Position and related notes.

Auditing Standards

We conducted our audit in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD, and Office of Management and Budget (OMB) Bulletin No. 93-06, "Audit Requirement for Federal Financial Statements," January 8, 1993. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the principal statements are free of material

misstatements. We relied on the guidelines suggested by the General Accounting Office and our professional judgment in assessing the materiality of matters impacting the fair presentation of the Statement of Financial Position and related internal control weaknesses.

Accounting Principles

Accounting principles and standards for the Federal Government remain under development. The Federal Accounting Standards Advisory Board was established to recommend Federal accounting standards to the Director, OMB; the Secretary of the Treasury; and the Comptroller General; who are principals of the Joint Financial Management Improvement Program. Specific standards agreed on by the three principals are issued by the Director, OMB, and the Comptroller General. Until accounting standards have been issued that will govern all aspects of financial statement reporting and constitute "generally accepted accounting principles for the Federal Government," agencies are required to follow the hierarchy of accounting principles described in OMB Bulletin No. 94-01, "Form and Content of Agency Financial Statements," November 16, 1993. The hierarchy constitutes an "other comprehensive basis of accounting" to be used for preparing Federal agency financial statements. The hierarchy defined and approved by the Joint Financial Management Improvement Program principals is summarized as:

o standards agreed to and published by the Joint Financial Management Improvement Program principals,

o form and content requirements of OMB,

o accounting standards contained in agency accounting policy guidance, and

o accounting principles published by other authoritative sources.

To date, three accounting standards have been published by the Joint Financial Management Improvement Program principals, so most accounting standards for the DoD "other comprehensive basis of accounting" are contained in DoD accounting policy guidance. The DoD accounting guidance is primarily in DoD Manual 7220.9-M, "DoD Accounting Manual," October 1983. During FY 1993, the then Comptroller of the DoD (presently the Under Secretary of Defense [Comptroller]) updated portions of the DoD Accounting Manual and incorporated those sections into a new regulation, DoD 7000.14-R, "DoD Financial Management Regulation," May 1993.

The DoD Financial Management Regulation will eventually serve as the single DoD-wide financial management regulation for use by all DoD Components for accounting, budgeting, finance, and financial management education and training. In the interim, unless superseded by published Federal accounting standards or requirements of OMB, the policy contained in the DoD Accounting

Manual or in the DoD Financial Management Regulation, as applicable, is the authoritative basis for preparing financial statements in accordance with an "other comprehensive basis of accounting."

Part II - Audit Results

Audit Background

The Chief Financial Officers Act requires an annual audit of funds such as the Commissary Resale Stock Fund. The financial statements of the Commissary Resale Stock Fund are the responsibility of DeCA and were prepared by DeCA based on financial information provided by the Defense Finance and Accounting Service Columbus Center, Columbus, Ohio (DFAS-CO), and the 9th Finance Group - Subsistence Finance and Accounting Office, Germany. The Statement of Financial Position essentially shows the worth of the Commissary Resale Stock Fund by comparing its assets and liabilities as of the end of a fiscal year. DeCA reported assets of $756 million and liabilities of $653.3 million on the Statement of Financial Position. We reviewed the following four major accounts:

Assets

o Accounts Receivable - Transactions With Federal Entities, $85.4 million

o Accounts Receivable - Transactions With Non-Federal Entities, $91.6 million

o Inventories Held for Sale, $574.7 million

Liabilities

o Accounts Payable - Transactions With Federal Entities, $166 million

Thus, we reviewed $751.7 million of the $756 million reported asset balance and $166 million of the $653.3 million reported liability balance.

Audit Objectives

Our primary objective was to determine whether the Statement of Financial Position accounts present fairly the financial position of the Commissary Resale Stock Fund in accordance with OMB Bulletin 94-01. We also evaluated the DeCA and the DFAS-CO internal control structure for ensuring that material misstatements were prevented or detected in asset and liability account balances as well as their compliance with applicable laws and regulations that have a direct and material effect on the financial statement.

Part II.A. - Review of Internal Controls

Introduction

We examined the internal control structure for the principal asset and liability accounts presented on the Statement of Financial Position, as of September 30, 1994, for the Commissary Resale Stock Fund, which is part of the Defense Business Operations Fund. The statement upon which our examination was based was submitted to us on December 30, 1994. DeCA and DFAS-CO management are jointly responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures.

The objectives of an internal control structure (United States Code, title 31, section 3512) are to provide management with reasonable but not absolute assurance that the following are met:

o Transactions are properly recorded and accounted for to permit the preparation of reliable financial statements and to maintain accountability over assets.

o Funds, property, and other assets are safeguarded against loss, misappropriation, unauthorized use, and waste.

o Transactions, including those related to obligations and costs, are executed in compliance with laws and regulations that could have a direct and material effect on the financial statements, and any other laws and regulations that OMB, entity management, or the Inspector General, DoD, have identified as being significant for which compliance can be objectively measured and evaluated.

For the purpose of this report, we evaluated the significant internal controls over the following accounts: Accounts Receivable - Transactions With Federal Entities, Accounts Receivable - Transactions With Non-Federal Entities, Inventory Held For Sale, and Accounts Payable - Transactions With Federal Entities.

Reportable Conditions. Reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to effectively control and manage its resources and ensure accurate and reliable financial information needed to manage and evaluate operational performance. A material weakness is a reportable condition in which the design or operation of the internal control structure does not reduce to a relatively low level the risk that errors or irregularities could occur. Such errors would be in amounts that would be material to the statements being audited, or material to a performance measure or aggregation of related performance measures, and not be detected within a timely period by employees

in the normal course of performing their functions. Material internal control weaknesses existed in the internal control structure at both DeCA and DFAS-CO.

DeCA. DeCA did not establish or implement internal controls to ensure that material misstatements were prevented or detected in the asset and liability account balances of the Statement of Financial Position. Also, DeCA did not fully implement its internal management control program as it relates to preventing or detecting material misstatements in the asset and liability account balances of the Statement of Financial Position. DeCA assessed the internal control risk of the Commissary Resale Stock Fund's commissary store inventory accountability as high. Because DeCA had not yet conducted self-assessments of the controls over individual account balances, the material weaknesses we identified were not surfaced and resolved.

DFAS-CO. DFAS-CO did not establish or implement internal controls to ensure material misstatements were prevented or detected in the asset and liability account balances of the Statement of Financial Position.

Standard Finance System. DFAS-CO did not establish a responsive accounting system for Commissary Resale Stock Fund transactions and recordings. DFAS-CO used the Standard Finance System (STANFINS) to account for Commissary Resale Stock Fund transactions and general ledger recordings. However, STANFINS had significant shortcomings in meeting the accounting requirements of the Commissary Resale Stock Fund's asset and liability accounts, as of September 30, 1994. For example, STANFINS could not provide detailed lists of transactions whose total supported the Commissary Resale Stock Fund's asset and liability accounts. DFAS-CO recognized the shortcomings of STANFINS and issued a letter to the Inspector General, DoD, dated November 9, 1994, stating that STANFINS does not provide an accurate and reliable audit trail. Until Commissary Resale Stock Fund accounting is automated and provides an adequate and reliable audit trail, controls over asset and liability account balances will likely remain unreliable.

Annual Statement of Assurance. DFAS-CO recognized additional weaknesses in its FY 1994 Annual Statement of Assurance. The weaknesses included no detailed support for Inventory in Transit, abnormal accounts payable balances, backlogs in accounts receivable posting, and lack of training for accounting personnel. Until these weaknesses are resolved, the internal control environment will remain at high risk of generating inaccurate balances.

Reportable Conditions Not Noted. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions that are also considered to be material weaknesses.

Finding A. Accounts Receivable

The DeCA and DFAS-CO internal control structure over transaction processing and general ledger recordings for the Commissary Resale Stock Fund did not provide reasonable assurance of an accurate accounts receivable balance. The condition occurred because DFAS-CO did not have an accurate audit trail for accounts receivable and control over payments received from customers, and DeCA did not establish an allowance for uncollectible accounts. As a result, the Statement of Financial Position reported Accounts Receivable - Transactions With Federal Entities balance of $85.4 million and Accounts Receivable - Transactions With Non-Federal Entities balance of $91.6 million could be materially misstated.

Background

The Commissary Resale Stock Fund accounts receivable come from two sources: amounts due from Government organizations (Accounts Receivable - Transactions With Federal Entities) and amounts due from the public (Accounts Receivable - Transactions With Non-Federal Entities). The DoD Accounting Manual provides the principles and standards that organizations should follow to account for accounts receivable. DoD organizations are to:

- ensure that the accounts receivable balance includes all transactions,
- require that subsidiary records of customer accounts agree with the general ledger balance,
- accurately and promptly record accounts receivable, and
- establish allowances for uncollectible accounts.

The Statement of Financial Position, as of September 30, 1994, reported $85.4 million in Accounts Receivable - Transactions With Federal Entities and $91.6 million in Accounts Receivable - Transactions With Non-Federal Entities, totaling $177 million. Of the $177 million, $159.5 million was recorded in the STANFINS general ledger maintained by DFAS-CO, and the remaining $17.5 million was recorded in the STANFINS general ledger maintained by the 9th Finance Group - Subsistence Finance and Accounting Office.

Account Balance

The DeCA and DFAS-CO internal control structure over transaction processing and general ledger recordings for the Commissary Resale Stock Fund did not provide reasonable assurance of an accurate Accounts Receivable - Transactions

With Federal Entities balance or an accurate Accounts Receivable - Transactions With Non-Federal Entities balance. To establish the reasonableness of the DeCA-reported accounts receivable balances as of September 30, 1994, we compared the general ledger balances to a listing of detail transactions in STANFINS (AVK 500 report) and to a listing of customer balances from STANFINS (APC balance report). In addition, we examined a sample of customer balances from the APC balance report. The general ledger balances did not match the AVK 500 report or the APC balance report; therefore, the general ledger balances were not supported and may be misstated.

AVK 500 Report. We obtained the AVK 500 report for Accounts Receivable - Transactions With Federal Entities and Accounts Receivable - Transactions With Non-Federal Entities for three commissary stores to determine the reasonableness of the reported accounts receivable balances. The AVK 500 report showed the detail transactions recorded in STANFINS for the three commissary stores for the month of August 1994. The total of those transactions on the AVK 500 report should equal the net difference between the July 1994 and August 1994 general ledger accounts for the three stores. The balances from the AVK 500 report and the general ledger did not reconcile. We could not determine the reason for the AVK 500 report and the general ledger not reconciling and neither could DFAS-CO. Tables 1 and 2 summarize the differences.

Table 1. Comparison of AVK 500 Report and General Ledger for Accounts Receivable - Transactions With Federal Entities

Commissary Store	AVK 500	General Ledger	Difference
Oceana	$700,613	$573,168	$127,445
Fort Eustis	232,075	111,507	120,568
Corozal	193,151	239,056	(45,905)

Table 2. Comparison of AVK 500 Report and General Ledger for Accounts Receivable - Transactions With Non-Federal Entities

Commissary Store	AVK 500	General Ledger	Difference
Oceana	($129,994)	($2,549)	($127,445)
Fort Eustis	(115,837)	4,731	(120,568)
Corozal	(30,164)	15,741	(45,905)

The tables show the dollar value of the differences between the total of the transactions on the AVK 500 report for August 1994 and the change in the general ledger balance from July 31, 1994, to August 31, 1994, for the three stores.

APC Balance Report. We also obtained the APC balance report for Accounts Receivable - Transactions With Federal Entities and Accounts Receivable - Transactions With Non-Federal Entities to determine the reasonableness of the reported accounts receivable balances. The APC balance report breaks down the general ledger balance for accounts receivable by customer. The total of the

customer balances should equal the balance in the general ledger. However, the APC balance report totaled $149.8 million and the general ledger balance at September 30, 1994, totaled $301.6 million, for a difference of $151.9 million. Of the $151.9 million difference, $145.5 million was for acceptable reasons, leaving an unexplained difference of $6.4 million.

Sample of Customer Balances. We selectively tested amounts due from customers, as of September 30, 1994, from the APC balance report to ascertain whether Accounts Receivable - Transactions With Federal Entities and Accounts Receivable - Transactions With Non-Federal Entities balances were accurate. Accounts receivable balances are made up of multiple billings and collections. Our testing of accounts receivable balances for nine customers showed the following problems.

o DFAS-CO stated that a total of $12.1 million ($10 million more than 360 days old) in accounts receivable collections was applied by DFAS personnel to invalid bill numbers because the actual bill number was not known. For the nine customer balances reviewed, $2.1 million of the $12.1 million was incorrectly applied to invalid bill numbers. As a result, the balances for the correct bill numbers do not reflect the payments.

o Accounts receivable collections totaling $340,148 for 9 customers were not supported by proof of payment.

o Payments from a customer, totaling $61,000, were credited to the correct customer but applied to incorrect bill numbers.

o A customer was billed twice for $70,933.

o A balance due for a customer was increased by $23,426 without supporting documentation. DFAS-CO stated that it was due to a system error.

Internal Control Structure

DeCA. DeCA did not have an adequate internal control structure for accounts receivable. DeCA did not establish an allowance for uncollectible receivables to offset accounts receivable as required by the DoD Accounting Manual. The DoD Accounting Manual states that collectibility of receivables declines with age, and requires the establishment of an allowance for uncollectible receivables. DFAS-CO determined that as of September 30, 1994, Air Force appropriated customers owed DeCA $64 million (75 percent of the $85.4 million in Accounts Receivable - Transactions With Federal Entities), and that $35 million of the $64 million was more than 120 days old. DFAS-CO contacted several Air Force customers to obtain payment, but as of February 22, 1995, they had collected only $5.3 million of the $64 million in accounts receivable. DFAS-CO stated that it could not contact all Air Force customers with outstanding bills, because of inaccurate phone numbers and addresses in their records. DeCA stated that policies and procedures were not

established for an allowance account for uncollectible receivables, because DeCA believes that 100 percent of the receivables are collectible. DeCA should perform a review to determine the collectibility of its accounts receivable account and establish an allowance for the uncollectibles.

DFAS-CO. DFAS-CO did not have an adequate internal control structure for accounts receivable. Optimally, an accounting system with an adequate internal control structure should be automated and generate financial statement balances from an unbroken flow of source documents, journals, and ledgers. Such a system would likely have a low risk of material errors, because of the internal controls. However, as recognized by DFAS, STANFINS does not provide an accurate and reliable audit trail. Accordingly, DFAS-CO could not provide a detail listing of transactions that support the accounts receivable balance in the general ledger. Until DFAS-CO establishes internal controls including an audit trail between transactions at the store level and the general ledger, prompt followup to ensure collection on accounts due, and adequate controls over payments received from customers, the internal control environment will remain at high risk of generating inaccurate account balances.

Materiality and Impact on Financial Statements

The internal accounting controls over accounts receivable were materially deficient. The DoD Financial Management Regulation contains guidance on what constitutes a material deficiency in an accounting system.

Key Accounting Requirements. The regulation provides 13 key accounting requirements that systems must reasonably comply with to meet standards established by the General Accounting Office, OMB, the U.S. Treasury, and DoD. The third key accounting requirement states accounts receivable shall be recorded accurately and promptly to provide timely and reliable financial status, and an allowance for uncollectible accounts must be established to provide full financial disclosure. The eighth key requirement deals with audit trails and provides that a system should ensure that transactions are correctly classified, coded, and recorded in all affected accounts. Also, the financial transactions that the system is accounting for must be adequately supported with pertinent documents and source records. All transactions, including those that are computer-generated and computer-processed, must be traceable to individual source records.

Calculating Material Deficiency. According to the regulation, a departure from a key accounting requirement is considered a material deficiency if it could result in loss of control over 5 percent or more of the measurable resources for which the accounting system is responsible. The Statement of Financial Position reported an accounts receivable balance of $85.4 million in Accounts Receivable - Transactions With Federal Entities as of September 30, 1994. Applying the regulation's materiality criteria of 5 percent to the accounts receivable balance would mean that a material deficiency would occur if accounts receivable were $4.3 million more or less than the reported amount.

Material Deficiencies in Accounts Receivable - Transactions With Federal Entities. Based on our analysis and review of records, $35 million of the Accounts Receivable - Transactions With Federal Entities, owed by organizations funded by Air Force appropriations, was more than 120 days old. The DoD Accounting Manual noted that the likelihood of collecting accounts decreases with age; therefore, a substantial portion of the $35 million may be uncollectible. In addition, the internal control structure is materially deficient because the potential loss of control from not establishing an adequate audit trail well exceeds the $4.3 million criteria for materiality. As such, the Accounts Receivable - Transactions With Federal Entities balance of $85.4 million presented in the Statement of Financial Position cannot be relied upon and could be materially overstated.

Material Deficiencies in Accounts Receivable - Transactions With Non-Federal Entities. The internal control deficiencies noted above for Accounts Receivable - Transactions With Federal Entities also apply to Accounts Receivable - Transactions With Non-Federal Entities, presented in the Statement of Financial Position. We could not quantify the potential misstatement in Accounts Receivable - Transactions With Non-Federal Entities. However, because of the material deficiency of the internal control structure, including the lack of an accurate and reliable audit trail in STANFINS, the Accounts Receivable - Transactions With Non-Federal Entities balance of $91.6 million presented in the Statement of Financial Position cannot be relied upon.

Recommendations, Management Comments, and Audit Response

1. We recommend that the Director, Defense Commissary Agency, establish an allowance for uncollectible accounts based on aging and collectibility of accounts receivable.

Management Comments. The Defense Commissary Agency concurred and agreed to establish an allowance account for uncollectible receivables by the end of FY 1995.

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

a. Establish an audit trail between the commissary stores and the general ledger for accounts receivable by ensuring that the AVK 500 report and the APC balance report reconcile with the general ledger account balance.

b. Identify and correct deficiencies in the collection process for accounts receivable.

Management Comments. The Defense Finance and Accounting Service concurred with Recommendations A.2.a. and A.2.b. The Defense Finance and

Accounting Service agreed to establish an audit trail between the commissary stores and the general ledger for accounts receivable by January 1996, and also agreed to identify and correct deficiencies in the collection process for accounts receivables by June 1995.

Finding B. Inventory

The DeCA and DFAS-CO internal control structure over transaction processing and general ledger recordings in the Commissary Resale Stock Fund did not provide reasonable assurance of an accurate inventory balance. The condition occurred because the internal control structure was inadequate for transfers of merchandise, entry of merchandise receipts, implementation of the internal management control program, and completion of timely, effective reports of survey. DeCA identified weaknesses in training personnel, performing reconciliations by the service centers, preparing records of operations, and establishing receiving policy and procedures. As a result, the Statement of Financial Position reported inventory balance of $574.7 million reflected loss adjustments of $55.4 million, and DeCA could not determine the amount of misstatement in inventory as of September 30, 1994; therefore, the account could be materially misstated.

Background

The Commissary Resale Stock Fund inventory account represents merchandise held in commissary stores and warehouses for sale to patrons, as well as merchandise to be shipped to overseas commissary stores. The DoD Accounting Manual provides the principles and standards that organizations should follow to account for inventory. Inventory items purchased should be brought under financial accounting control and recorded in the applicable inventory general ledger account until issued or sold to a user or consumer. Inventory accounts should be updated based on approved source documents. To determine the reasonableness of the amounts in the general ledger inventory accounts, reconciliations should be performed using the top-down approach. The top-down approach requires the reconciler to support the financial statement balances with the balances in the general ledger. Then the general ledger balances should be supported by transaction detail. Adjustments to the general ledger accounts and the inventory accountability records should be supported by a report of survey, prepared in accordance with the DoD Accounting Manual.

The Statement of Financial Position, as of September 30, 1994, combined the two general ledger accounts of Inventory for Agency Operations and Inventory in Transit into one account, Inventory Held for Sale, which amounted to $574.7 million. Table 3 shows what that amount included.

Table 3. Inventory Held for Sale, as of September 30, 1994
(thousands)

Title	CONUS	Europe	Total
Inventory for Agency Operations	$283,190	$ 90,730	$373,920
Inventory in Transit	131,929	68,834	200,763
Total	**$415,119**	**$159,564**	**$574,683**

Of the $574.7 million reported in Inventory Held for Sale, $415.1 million was recorded in the STANFINS general ledger maintained by DFAS-CO, and the remaining $159.6 million was recorded in the STANFINS general ledger maintained by the 9th Finance Group - Subsistence Finance and Accounting Office.

Account Balance

The DeCA and DFAS-CO internal control structure over transaction processing and general ledger recordings in the Commissary Resale Stock Fund did not provide reasonable assurance of an accurate inventory balance. During the period January through August 1994, DeCA performed accountability inventories of all DeCA merchandise and determined that accounting reductions of $55.4 million were required because of physical inventory losses. That $55.4 million adjustment represented 9.6 percent of the Inventory Held for Sale balance ($574.7 million) and 1 percent of the Cost of Goods Sold balance ($5,579.3 million). Also, the Inventory in Transit balance, valued at $200.8 million, was inaccurate because of mismatched transactions within subsidiary files. During FY 1994, DeCA identified and reduced the value of Inventory in Transit by $111 million to correct errors resulting from mismatched transactions. Similar corrections will be made in FY 1995. Because of the number of records in the file and the number requiring correction, DeCA has not determined the dollar value of corrections to be posted to this account in FY 1995.

Internal Control Structure

Weaknesses Identified by Audit. The internal control structure of the Commissary Resale Stock Fund was inadequate for exercising control over the transfers of merchandise, the entry of merchandise receipts, the implementation of the internal management control program, and the completion of timely, effective reports of survey.

Transfers of Merchandise. DeCA regions did not perform systematic followup to ensure that commissary stores received merchandise and maintained documentation on the transfers of merchandise between commissary stores and from the central distribution centers to the commissary stores. Commissary stores did not retain documentation to support transfers of merchandise. For example, the Oceana Naval Air Station commissary could provide support for only 21 transfers (13 percent) of 167 transfers for April 1994 through September 1994 from the area central distribution centers. Because of a lack of training, DeCA personnel did not implement DeCA Directive 40-23, chapter 4, "Distribution Center Operations," October 30, 1992, which requires followup by personnel to ensure receipt of merchandise transferred from the central

distribution centers to the commissary stores. DeCA must perform systematic followup on transfers of merchandise between its stores and its stores and central distribution centers to ensure Inventory Held for Sale is not misstated.

Entry of Merchandise Receipts. DeCA did not have adequate control over the entry of merchandise receipts into its inventory management system. The entry of merchandise receipts was reviewed for 12 commissary stores for April 1994 through September 1994. Of the 12 commissary stores reviewed, 2 identified 110 merchandise receipts, totaling about $540,000, in the inventory management system that were not entered by commissary store personnel. Additionally, no supporting documentation could be located at the commissary store for those receipts. Many individuals at levels above the commissary stores (regions, service centers, and headquarters) have the capability to modify commissary accounts, including the ability to enter merchandise receipts. Because the inventory management system does not keep a record of the individual making an entry for a merchandise receipt, we could not determine who was responsible for entering the merchandise receipts.

Implementation of Internal Management Control Program. The store level internal management control program was not effectively implemented at the nine stores reviewed for that program. Checklists were completed as required, but often the checklists were not signed and dated, had no remarks to describe the work done, and did not include explanations for use of the term "not applicable." For example, a store answered "not applicable" to the checklist question about preparing timely reports of survey, even though it had inventory losses that required a report of survey to be completed. Another commissary store answered "no" on the checklist indicating that the commissary did not have the required internal controls. However, the commissary's annual statement of assurance did not discuss the control weakness. The store exceeded its allowable inventory loss tolerance by $47,000.

Completion of Reports of Survey. Reports of survey were required to be prepared for nine stores reviewed. They were prepared untimely for eight of the nine stores and prepared by personnel lacking independence at one of the nine stores.

Untimely Reports of Survey. Reports of survey for eight of the nine commissary stores were untimely. For example, an annual physical inventory on April 25, 1994, at the Oceana Naval Air Station commissary store disclosed an inventory loss in the grocery department. DeCA Directive 40-15, "Accounting and Reporting of Government Property Lost, Damaged, or Destroyed," November 12, 1992, requires a report of survey to be initiated within 15 days after a loss is discovered. However, the commissary store did not prepare the report of survey until December 7, 1994, 7 months after the discovery of the loss. The reports of survey must be prepared in a timely manner in order for prompt corrective action to occur.

Lack of Independence. Reports of survey should be prepared by personnel independent of the situation. DeCA Directive 40-15 states that an individual who is personally responsible or directly interested in the property on

the report of survey cannot act as an investigating officer. However, the key support for a report of survey for one of the nine commissary stores visited was prepared by the commissary officer.

Weaknesses Identified by DeCA. The DeCA FY 1994 Annual Statement of Assurance identified internal control structure weaknesses in training of personnel, performing reconciliations by the service centers, preparing commissary store records of operations, and establishing receiving policy and procedures.

Training Personnel. DeCA noted in its FY 1994 Annual Statement of Assurance that its receiving personnel did not have sufficient training to ensure that the contract number (PIIN), order number (call), and DoD activity code (DODAAC) included on DeCA receipts of a delivery agree with the PIIN, call, and DODAAC on vendor delivery tickets. The failure to ensure that the PIIN, call, and DODAAC are the same for the DeCA receipt and the vendor's delivery ticket leads to mismatched transactions within subsidiary files, which cause misstatement of Inventory in Transit. The failure to match the PIIN, call, and DODAAC may also lead to the service center entering the same receipt of delivery under a different PIIN, call, or DODAAC. Training also relates to the other conditions discussed below.

Performing Reconciliations. DeCA also noted in its FY 1994 Annual Statement of Assurance that procedures for reconciliations of inventory accounting records (Store Block Control Journal, the commissary store's record of transactions; and Voucher Register General Control, the record of transactions produced by the DeCA inventory management system) need to be established and personnel need to be trained. We reviewed reconciliations of inventory accounting records for four stores for August 1994 and September 1994 and noted the reconciliations were not always performed correctly by the service centers. The reconciliation for one store was incorrect in August 1994, and the September 1994 reconciliation was not complete. Failure to perform timely, accurate reconciliations allows inaccurate records to go undetected and uncorrected.

Preparing Record of Operations. DeCA noted in its FY 1994 Annual Statement of Assurance that new and improved procedures for preparing DeCA Form 40-10, "Records of Operation," used to control meat inventories and set prices, are necessary. At the Camp LeJeune commissary store, DeCA Form 40-10 incorrectly showed a gain in the meat department. The management support center did not reconcile the Store Block Control Journal to the receipts on the DeCA Form 40-10, which allowed incorrect receipt totals to be used on the DeCA Form 40-10. As a result, meat prices were reduced based on incorrect determinations that the commissary had a gain. When the annual accountability inventory was taken, the commissary store showed a loss of $45,168 in the meat department that was attributed to the underpricing.

Establishing Receiving Policy and Procedures. In its FY 1994 Annual Statement of Assurance, DeCA reported it had not developed and disseminated comprehensive receiving policy and procedures. As a result, not all commissary stores were retaining the same types of records of receipts of

delivery, and the records of receipts of delivery were not adequate at some commissary stores. Also, corrections of receipts of delivery for stores were entered at levels other than that of the commissary store without documents evidencing receipt. That practice contributed to incorrect entries of receipts. In addition, receipt entries were posted as corrections at service centers, but the original receipts at the commissary stores were not deleted, resulting in duplicate receipts in the inventory management system.

DeCA Planning Milestones. Even without those difficulties, the volume of merchandise transactions, value, and use increase the possibility of accounting errors and pilferage. A national survey of supermarkets determined that employee theft and shoplifting were the most significant reasons for inventory loss. Accordingly, personnel in critical positions must be sufficiently trained to perform assigned duties. In its FY 1994 Annual Statement of Assurance, DeCA recognized the need to train commissary officers, department managers, and management support personnel in policy and procedures related to inventory accountability by establishing milestones for completion of training in FY 1995. In addition, DeCA has set milestones to establish standard service center reconciliation procedures, develop and disseminate new and improved DeCA Form 40-10 and procedures, develop and disseminate comprehensive receiving policy and procedures, and complete accountability inventory cycle with the goal of the commissary stores being within the allowable inventory tolerance. However, DeCA still needs to improve control and accountability over transfers, allow entry of receipt only with appropriate supporting documentation, improve implementation of the internal management control program, and have only independent personnel prepare timely reports of survey.

Weaknesses Identified by DFAS-CO. DFAS-CO did not have an adequate internal control structure for inventory. Optimally, an accounting system with an adequate internal control structure should be automated and generate financial statement balances from an unbroken flow of source documents, journals, and ledgers. Such a system would likely have a low risk of material errors, because of the internal controls. However, as recognized by DFAS, STANFINS does not provide an accurate and reliable audit trail. DFAS-CO recognized in its FY 1994 Annual Statement of Assurance that detailed support could not be provided for Inventory in Transit. Until DFAS-CO establishes internal controls including an audit trail between transactions at the store level and the general ledger, the internal control environment will remain at high risk of generating inaccurate account balances. We are not making a recommendation on this condition because DFAS-CO has recognized the condition and has planned corrective action.

Materiality and Impact on Financial Statements

The internal accounting controls over Inventory Held for Sale were materially deficient. The DoD Financial Management Regulation contains guidance on what constitutes a material deficiency in an accounting system.

Key Accounting Requirements. The regulation provides 13 key accounting requirements that systems must reasonably comply with to meet standards established by the General Accounting Office, OMB, the U.S. Treasury, and DoD. The second key accounting requirement deals with property and inventory accounting and indicates that the system must account in quantitative and monetary terms for the procurement, receipt, issue, and control of plant property, equipment, inventory, and material. Physical controls include assigning specific individuals to inventory, placing physical safeguards on inventory, and periodically reconciling physical inventories to the accounting records. The eighth key accounting requirement deals with audit trails and provides that a system should ensure that transactions are correctly classified, coded, and recorded in all affected accounts. Also, the financial transactions that the system is accounting for must be adequately supported with pertinent documents and source records.

Calculating Material Deficiency. According to the regulation, a departure from a key accounting requirement is considered a material deficiency if it could result in loss of control over 5 percent or more of the measurable resources for which the accounting system is responsible. The Statement of Financial Position reported an inventory balance of $574.7 million, as of September 30, 1994. Applying the regulation's materiality criteria of 5 percent to the inventory balance would mean that a material deficiency would occur if an inventory adjustment greater than $28.7 million were required.

Material Deficiencies in Inventory Held for Sale. DeCA made adjustments to inventory to correct the books for losses totaling $55.4 million, which was twice the amount to be considered a material deficiency. Also, DeCA is unable to determine the amount of error in Inventory in Transit included within the Inventory Held for Sale balance. Therefore, the internal accounting control structure is materially deficient. As such, the inventory balance of $574.7 million presented in the Statement of Financial Position cannot be relied upon and could be materially misstated.

Recommendations, Management Comments, and Audit Response

We recommend that the Director, Defense Commissary Agency:

1. Implement systematic followup by the regions to ensure commissary stores receive transferred merchandise and retain documentation to support transfers of merchandise.

Management Comments. The Defense Commissary Agency nonconcurred with our recommendation to implement systematic followup on merchandise transfers. The Defense Commissary Agency stated that systematic followup by the regions is not necessary to account for merchandise transferred in/transferred out. The Defense Commissary Agency stated that store records are required to be reconciled and DeCA Directive 70-16, August 31, 1994,

requires reconciliation of transfers by the service centers. The Defense Commissary Agency also stated that the DeCA Interim Business System includes guidance for every type of discrepancy previously noted.

Audit Response. We acknowledge that DeCA Directive 70-16, issued in August 1994, was intended to address the transfers problem and there may have been insufficient time to gauge its impact before completion of the audit field work. We are somewhat skeptical that accounting for merchandise transfers can be made adequate without region level reconciliations; however, if DeCA can show that this outcome is being achieved, we would agree that region level involvement would not be needed. We request that the Defense Commissary Agency provide additional comments in its response to the final report, including a discussion of what indicators show improvement in accounting for transfers.

2. Implement procedures to control the entry of merchandise receipts into the computer system by requiring the appropriate supporting documentation.

Management Comments. The Defense Commissary Agency concurred with our recommendation and stated that procedures are in place to control the entry of merchandise receipts into the computer system. The procedures include limiting the entry of corrections and password controls.

Audit Response. Management comments are not responsive. We were unable to determine who entered merchandise receipt or transfer information into the DeCA computer systems. Defense Commissary Agency personnel could not identify the location from which receipts were entered and could not provide supporting documentation for transactions. Regional personnel informed us that dozens of people could adjust receipts for any store in the region. There is a need for a better management control structure, starting with more effective implementing procedures, as well as better followup to ensure compliance. We request that the Defense Commissary Agency provide additional comments.

3. Implement the internal management control program effectively at the store level by having the regions review, approve, and retain the checklists for the stores.

Management Comments. The Defense Commissary Agency partially concurred with our recommendation to have regions review, approve, and retain the checklists for the stores. The Defense Commissary Agency agreed that regions should ensure that checklists are completed and responses are appropriate. The Defense Commissary Agency also stated that the newly appointed zone managers will be instructed to ensure the internal control checklists are completed and are responsive. The Defense Commissary Agency did not agree that completed checklists should be retained at the regional offices.

Audit Response. The management comments are responsive.

4. Implement controls to ensure that commissary store personnel independent of the loss prepare timely, effective reports of survey.

Management Comments. The Defense Commissary Agency concurred with the recommendation and stated it is revising DeCA Directive 40-15, Accounting and Reporting of Government Property, Lost, Damaged, or Destroyed, which should be issued later this year. The Defense Commissary Agency, also stated that, in the instances cited in the report, DeCA policy and procedures were not followed. The Defense Commissary Agency noted that, with the "zone manager" concept, additional resources can be focused on weaknesses to prevent losses and to investigate losses that do occur in a timely manner.

Finding C. Accounts Payable

The DeCA and DFAS-CO internal control structure over transaction processing and general ledger recordings in the Commissary Resale Stock Fund did not provide reasonable assurance of an accurate Accounts Payable - Transactions With Federal Entities balance. The condition occurred because DeCA did not reconcile the general ledger account balance to the voucher documentation files. As a result, the Statement of Financial Position reported Accounts Payable - Transactions With Federal Entities balance of $166 million as of September 30, 1994, could be materially misstated.

Background

The Commissary Resale Stock Fund Accounts Payable - Transactions With Federal Entities represent monies that DeCA owes other Federal Government entities for goods and services received, but for which payment has not been made in the current fiscal year. The DoD Accounting Manual provides the principles and standards that organizations should follow to account for accounts payable.

o Periodically, but at least annually, the balances recorded in accounts payable and the related subsidiary accounts shall be reconciled with the voucher documentation files.

o The recording of an accounts payable is the first transaction-level entry in the proprietary, or financial statement, accounts. Until goods or services are received, transactions are to be recorded in the budgetary, or non-financial, accounts as undelivered orders. When an accounting station receives evidence that performance has occurred, the transaction is to be recorded simultaneously in the budgetary accounts as an accrued expenditure unpaid and in the proprietary accounts as an accounts payable.

o The basis for recording an accounts payable is a receiving report that clearly shows the property or services received and accepted.

The Statement of Financial Position reported $166 million in Accounts Payable - Transactions with Federal Entities. Of that amount, $132.8 million was recorded in the STANFINS general ledger maintained by DFAS-CO, and the remaining $33.2 million was recorded in the STANFINS general ledger maintained by the 9th Finance Group - Subsistence Finance and Accounting Office.

Account Balance

The DeCA and DFAS-CO internal control structure over transaction processing and general ledger recordings in the Commissary Resale Stock Fund did not provide reasonable assurance of an accurate Accounts Payable - Transactions With Federal Entities balance. To determine the reasonableness of the DeCA-reported balance as of September 30, 1994, we requested a copy of the DeCA accounts payable reconciliation and a listing of unpaid invoices as of September 30, 1994.

Account Reconciliation. In regard to the Accounts Payable - Transactions With Federal Entities balance, DeCA disclosed that it has not reconciled the general ledger to the voucher documentation files since the inception of DeCA on October 1, 1991. The balance in this account is normally carried forward at the end of each fiscal year. Because the account has not been reconciled in 3 years, there is no assurance that the balance is not materially misstated.

Unpaid Invoices. A list of unpaid invoices was requested as an alternative means to test and verify the account balance as of September 30, 1994. In a letter responding to our written request, DeCA stated the best it could do was provide all transactions processed to the general ledger for this account. That data would include the daily transactions for 3 years for more than 300 stores. Because DeCA cannot identify the amounts owed to Federal entities, DeCA may have lost control over its Accounts Payable - Transactions With Federal Entities account.

Internal Control Structure

DeCA. The DeCA internal control structure did not provide for reconciling the general ledger account balance for accounts payable to the supporting documentation. As a result, errors that would have been identified through the reconciliation process went undetected. For example, on February 1, 1994, the commissary store at Sagamahara, Japan, incorrectly entered $2.4 million in Accounts Payable - Transactions With Federal Entities. The inventory management system did not have internal controls in place to prevent the entry of an excessive amount for a single transaction in accounts payable. The Sagamahara commissary store attempted to correct this error, but its attempted correction resulted in a $68.8 million error in STANFINS. DeCA Headquarters initiated a journal entry to correct the $68.8 million misstatement. However, at September 30, 1994, the Sagamahara accounts payable balance was still $32 million, an apparent misstatement. The $32 million balance is 19 percent of the DeCA $166 million Accounts Payable - Transactions With Federal Entities year end balance and three times the $10 million annual sales of the Sagamahara commissary store. We were unable to determine the reason for this misstatement, and DeCA did not reconcile the balance to supporting documentation needed to correct the account.

DFAS-CO. DFAS-CO did not have an adequate internal control structure for accounts payable. Optimally, an accounting system with an adequate internal control structure should be automated and generate financial statement balances from an unbroken flow of source documents, journals, and ledgers. Such a system would likely have a low risk of material errors, because of the internal controls. However, as recognized by DFAS, STANFINS does not provide an accurate and reliable audit trail. DFAS-CO recognized weaknesses in its FY 1994 Annual Statement of Assurance, including abnormal balances in accounts payable. Until DFAS-CO establishes internal controls including an audit trail between transactions at the store level and the general ledger, the internal control environment will remain at high risk of generating inaccurate account balances. We are not making a recommendation on this condition because DFAS-CO has recognized the condition and has planned corrective action.

Materiality and Impact on Financial Statements

The internal accounting controls over Accounts Payable - Transactions With Federal Entities were materially deficient. The DoD Financial Management Regulation contains guidance on what constitutes a material deficiency in an accounting system.

Key Accounting Requirements. The regulation provides 13 key accounting requirements that systems must reasonable comply with to meet standards established by the General Accounting Office, OMB, the U.S. Treasury, and DoD. The ninth key accounting requirement deals with accounts payable and specifies that payables should be recorded in the proper accounting period and that the liability reported in annual financial statements shall reflect amounts due for goods and services received.

Calculating Material Deficiency. According to the regulation, a departure from a key accounting requirement is considered a material deficiency if it could result in loss of control over 5 percent or more of the measurable resources for which the accounting system is responsible. The Statement of Financial Position reported an accounts payable balance of $166 million as of September 30, 1994. Applying the regulation's materiality criteria of 5 percent to the accounts payable balance would mean that a material deficiency would occur if accounts payable were $8.3 million more or less than the reported amount.

Material Deficiencies in Accounts Payable - Transactions With Federal Entities. The DeCA failure to reconcile the Accounts Payable - Transactions With Federal Entities account for 3 years, the inability to provide a listing of unpaid invoices, the potential that an undetected error such as the $68.8 million at the Sagamahara commissary store could occur, and the $32 million ending balance for Sagamahara for Accounts Payable - Transactions With Federal Entities is reason for concern. The internal control structure is materially deficient, because the potential loss of control from not adhering to the DoD

Accounting Manual and not conducting annual reconciliations may well exceed the $8.3 million criteria for materiality. As such, the Accounts Payable - Transactions With Federal Entities balance of $166 million presented in the Statement of Financial Position cannot be relied upon.

Management Comments on the Finding and Audit Response

Management Comments on Finding Accounts Payable. The Defense Commissary Agency stated that the $68.8 million error caused by the Sagamahara Commissary attempting to correct a receipt entry was detected by both the West Service Center and the Defense Commissary Agency Headquarters Resource Management personnel during their reconciling process. Also, the Defense Commissary Agency stated that the correction journal voucher was made to correct the financial reports at the agency level, not to correct the STANFINS records. The Defense Commissary Agency further stated that the erroneous fiscal year end balance at the Sagamahara store was not caused by the $68.8 million error, but by timing differences in interfund billings that can take 6 months or more to be generated and posted.

Audit Response. We agree that the West Service Center and DeCA Headquarters Resource Management personnel detected and attempted to correct the error after the Sagamahara Commissary store had failed to make the corrections. We disagree with the statement that the correction was intended to correct the agency financial reports and not the STANFINS records. It may not have been the DeCA intent to alter the STANFINS; however, the Defense Commissary Agency is aware that transactions generated in the DeCA store level systems cause multiple postings in the STANFINS.

The erroneous fiscal yearned balance at the Sagamahara store of $32.2 million was not caused by interfund billing timing differences. The error was directly caused by posting errors while attempting to correct the Sagamahara problems. The Defense Commissary Agency did not follow regulatory guidance and reconcile the store balance to the voucher documentation. That process of review and reconciliation would have resulted in error detection and timely correction.

Recommendation, Management Comments, and Audit Response

We recommend that the Director, Defense Commissary Agency, adhere to the DoD Accounting Manual by directing that the Accounts Payable - Transactions With Federal Entities general ledger account be reconciled with the voucher documentation files.

Management Comments. The Defense Commissary Agency partially concurred and stated that it requested DFAS-CO to create a file listing showing only open detail transactions that support the account balance. The Defense Commissary Agency agreed to establish a plan of action for reconciling accounts payable once a detailed listing was available.

Audit Response. The Defense Commissary Agency comments are responsive and no additional action will be required.

Part II.B. - Review of Compliance with Laws and Regulations

Introduction

We evaluated the Commissary Resale Stock Fund for material instances of noncompliance with laws and regulations. The statement accounts on which we based our evaluation are presented in the Statement of Financial Position, as of September 30, 1994. The Statement of Financial Position was submitted to us on December 30, 1994. The Statement of Financial Position essentially shows the worth of the Commissary Resale Stock Fund by comparing its assets and liabilities as of the end of a fiscal year. DeCA reported assets of $756 million and liabilities of $653.3 million on the Statement of Financial Position. The Fund consists of four major account balances including Accounts Receivable - Transactions With Federal Entities, Accounts Receivable - Transactions With Non-Federal Entities, Inventory Held for Sale, and Accounts Payable - Transactions With Federal Entities. DeCA has financial management responsibility for the Commissary Resale Stock Fund while DFAS-CO and the 9th Finance Group - Subsistence Finance and Accounting Office, Germany, provide accounting services. Compliance with laws and regulations is the responsibility of the Fund managers.

To obtain reasonable assurance on whether the Statement of Financial Position is free of material misstatements, we tested compliance with laws and regulations that may directly affect the financial statement and other laws and regulations designated by OMB and DoD. Such tests are required by the Chief Financial Officers Act of 1990. The laws and regulations used as a basis for our review were:

o United States Code, title 31, section 3512 (formerly the Federal Managers' Financial Integrity Act of 1982, Public Law 97-225);

o Chief Financial Officers Act of 1990, Public Law 101-576;

o OMB Bulletin No. 94-01, "Form and Content of Agency Financial Statements," November 16, 1993;

o OMB Circular No. A-123, "Internal Control Systems," August 4, 1986;

o DoD Manual 7220.9-M, "DoD Accounting Manual," October 1983;

o DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987;

o DoD Directive 7200.1, "Administrative Control of Appropriations," revised July 27, 1987;

o DoD Regulation 7000.14-R, "DoD Financial Management Regulation," May 1993; and

o "DoD Guidance on Form and Content of Financial Statements for FY 1994 and FY 1995 Financial Activity," October 20, 1994.

We also obtained an understanding of the DeCA process for evaluating and reporting on internal control and accounting systems as required by United States Code, title 31, section 3512. We compared the material weaknesses reported in the DeCA and DFAS-CO Annual Statements of Assurance for FY 1994 to the material weaknesses we found during our evaluation of the internal control structure for the Commissary Resale Stock Fund and reported in Section II.A. of this report.

Reportable Conditions

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions in laws or regulations. Such failures or violations are those that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the principal statements or those whose sensitive nature would cause them to be perceived as significant. Instances of noncompliance with laws and regulations that materially affected the reliability of the Statement of Financial Position existed. The instances of noncompliance were considered when forming our disclaimer of opinion on the Statement of Financial Position. The results of our test disclosed the following instances of noncompliance.

Accounts Receivable. The DoD Accounting Manual was not fully complied with in processing and recording accounts receivable transactions. The DoD Accounting Manual provides that subsidiary records for reconciling with general ledger accounts are to be established, and requires the establishment of accounting controls over all receivables and the aggressive and efficient management of accounts receivable. However, DFAS-CO did not have an accurate audit trail for accounts receivable and controls over payments received from customers, and DeCA did not establish an allowance for uncollectible accounts. Because the applicable regulations were not complied with in accounting for accounts receivable, the general ledger accounts could be materially misstated.

Inventory. The DoD Accounting Manual was not fully complied with in processing and recording inventory transactions. The DoD Accounting Manual provides that the system account for the procurement, receipt, issue, and control of inventory. However, Inventory in Transit was inaccurate because of mismatched transactions within the subsidiary files. Because applicable regulations were not complied with in accounting for inventory, the general ledger accounts could be materially misstated.

Accounts Payable. The DoD Accounting Manual was not fully complied with in processing and recording accounts payable transactions. The DoD Accounting Manual requires the reconciling of the general ledger accounts with supporting documentation. However, DeCA had not reconciled the general

ledger account balance with the supporting documentation for at least 3 years. Because the applicable regulations were not complied with in accounting for accounts payable, the general ledger accounts could be materially misstated.

Internal Control Program. United States Code, title 31, section 3512, and DoD Directive 5010.38 were not fully complied with in establishing and assessing internal controls. United States Code, title 31, section 3512, requires agencies to establish internal accounting and administrative controls in accordance with standards instituted by the Comptroller General. United States Code, title 31, section 3512, also requires agencies to establish a comprehensive system of internal control management to properly record and account for revenues and expenditures, prepare reliable financial and statistical reports, and maintain accountability over assets. DoD Directive 5010.38 provides the management system for achieving the objectives of United States Code, title 31, section 3512.

In its FY 1994 Annual Statement of Assurance, DeCA reported a material weakness in achieving the objectives of United States Code, title 31, section 3512. DeCA acknowledged in the annual statement that it had not complied with established financial procedures in managing the Commissary Resale Stock Fund for commissary store accountability, including inventory controls. A source of identifying the weaknesses was Inspector General, DoD, audit reports.

DeCA also did not implement an effective internal management control program that assessed the adequacy of internal controls over the assets and liabilities of the Commissary Resale Stock Fund. DeCA rated supply operations as a high risk area because of significant swings in physical inventories at commissary stores, possibly from the deployment of the DeCA Interim Business System. Additionally, management control review checklists were prepared inaccurately, and the commissary stores did not include in their letters of assurance to the regions, the weaknesses identified in the checklists. Consequently, the material weaknesses we identified were not reported in the annual statement as required by United States Code, title 31, section 3512, or scheduled for corrective action.

Reportable Conditions Not Noted

Our evaluation of laws and regulations would not necessarily disclose all instances of noncompliance considered to be material and reportable. With respect to items not tested, nothing came to our attention that caused us to believe that DeCA and DFAS-CO had not complied, in all material respects, with those laws and regulations identified above.

Part III - Additional Information

Appendix A. Scope and Methodology

We examined the Statement of Financial Position and related notes for the Commissary Resale Stock Fund, as of September 30, 1994. Other principal statements and related notes prepared by DeCA, but not examined by us, include the Statement of Operations, Statement of Cash Flows, and Statement of Budget and Actual Expense. The Statement of Financial Position essentially shows the worth of the Commissary Resale Stock Fund, which is part of the Defense Business Operations Fund, by comparing its assets and liabilities as of the end of a fiscal year. DeCA reported assets of $756 million and liabilities of $653.3 million on the Statement of Financial Position. The Statement of Financial Position includes four major account balances including Accounts Receivable - Transactions With Federal Entities, Accounts Receivable - Transactions With Non-Federal Entities, Inventory Held For Sale, and Accounts Payable - Transactions With Federal Entities. DeCA has financial management responsibility for the Commissary Resale Stock Fund while DFAS-CO and the 9th Finance Group - Subsistence Finance and Accounting Office, Germany, provide accounting services. The Statement of Financial Position on which we made our examination was submitted to us on December 30, 1994.

Scope

We evaluated the DeCA internal control structure related to the Commissary Resale Stock Fund and compliance to directly related laws and regulations at DeCA Headquarters, 3 regions, and 12 commissary stores in the continental United States. We selected regions for evaluation because they manage the DoD internal management control program and maintain the inventory accountability records. We selected commissary stores for evaluation because they maintain records and initiate much of the receipt documentation supporting asset balances and accounts payable. Our review covered the Statement of Financial Position and related general ledger account balances as of September 30, 1994. In making our review, we verified or attempted to verify balances to subsidiary records and supporting source documentation either generated by accounting systems or by related logistical systems. We judgmentally selected the particular regions and commissary stores for evaluation based on a mix of sales volume, reported grocery department inventory loss, and extent of previous audit coverage.

We also evaluated the DFAS-CO internal control structure related to the Commissary Resale Stock Fund and compliance to directly related laws and regulations. DFAS-CO maintains STANFINS, which operates the general ledger accounts for the Commissary Resale Stock Fund. Accounts Receivable (Transactions With Federal and Non-Federal Entities) were reviewed at DFAS-CO.

Limitation of Scope. Of the account balances reported on the financial statements, 12 to 18 percent represent transactions that occurred outside the

continental United States and were not accounted for in the Defense Business Management System or the STANFINS maintained at DFAS-CO. Systems information and source documents for overseas transactions were maintained outside the continental United States. We were unable to obtain auditable documentation from those overseas organizations maintaining the DeCA financial records; therefore, we could not apply appropriate auditing procedures.

Methodology

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, including the accompanying notes. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit efforts provide a reasonable basis for our results.

Computer-Processed Information. We reviewed computer-processed data from DeCA and DFAS organizations. We independently verified the source data for selected transactions but not in sufficient quantities to draw conclusions on the overall reliability of the computer-processed data. We did not use statistical sampling procedures to conduct this audit.

Internal Management Control Program. Our internal control evaluation included implementation of the DeCA and the DFAS-CO internal management control program. The purposes of this evaluation were to:

o determine our auditing procedures for expressing an opinion on the Statement of Financial Position, and

o determine whether the internal control structure was established to ensure that the statements were free of material misstatements.

That determination included obtaining an understanding of the internal control policies and procedures, as well as assessing the level of control risk relevant to all significant cycles, classes of transactions, and account balances. For those significant control policies and procedures that had been properly designed and placed in operation, we performed sufficient tests to provide reasonable assurance that the controls were effective and working as designed.

Time Period and Locations. This financial statement audit was made during the period October 17, 1994, through February 3, 1995. A complete list of the locations we visited and contacted is in Appendix C.

Appendix B. Summary of Prior Audits and Other Reviews

Summary of Prior Audits

During the last 3 years, the Inspector General (IG), DoD, has issued three audit reports and two memorandums relating to the Chief Financial Officers Act and addressing the DeCA internal control program related to the Commissary Resale Stock Fund. The reported conditions, recommendations, and management comments are summarized below.

o IG, DoD, Report No. 94-157, "Defense Commissary Agency Financial Management Improvement Program," June 30, 1994, stated that DeCA had made significant improvements in six Financial Management Improvement Program functional areas: accrued expenses, automated data processing, contract payments, fixed assets, inventory, and sales and deposits. The audit disclosed no material deficiencies in implementing the DeCA Financial Management Improvement Program. DeCA management agreed with the report.

o IG, DoD, Report No. 93-147, "Defense Commissary Resale Stock Fund Financial Statements for FY 1992," June 30, 1993, stated that the financial statements and the notes to the Financial Statements do not present fairly the financial position of the fund. Material internal control weaknesses over vendor payments and inventory accountability were identified. Vendor payment authorizations were not properly supported and significant duplicate payments for vendor invoices were made. Inventories and inventory accounts were misstated. DeCA management agreed with six recommendations, partially agreed with four recommendations, and disagreed with six recommendations.

o IG, DoD, Report No. 93-124, "Report on the Controls Over Vendor Payments, Returned Checks, and Rebates," June 24, 1993, reported that during the first half of FY 1992, DeCA did not adequately control financial transactions related to vendor payments, returned checks, and rebates. As a result, DeCA could not be certain that the financial accounts related to vendor payments represented appropriately authorized transactions. We recommended that DeCA issue or modify procedures to ensure that the receipt of vendors' merchandise is verified and that prompt feedback on any deficiencies of fast payment vendors is provided to the contracting officers, remove expired contracts from the Standard Automated Voucher Examination System, and require that vendor checks be endorsed and deposited promptly. We also recommended that DeCA record the estimated rebates due from cigarette vendors, reconcile the actual vendor rebates received with the recorded receivables, and separate the person responsible for contracting for cigarette rebates from personnel receiving rebate checks. The Director concurred or concurred with alternatives to our recommended actions. The Director did not

agree that expired contracts must be removed from the Standard Automated Voucher Examination System in order to prevent improper vendor payments, but he proposed acceptable alternative procedures.

o IG, DoD, "Management Advisory Memorandum - Duplicate Vendor Payments, Audit of the FY 1992 Resale Stock Fund Financial Statements," May 4, 1992, provided audit results of preliminary work in the vendor payment area. The memorandum concluded that internal controls were inadequate to ensure that authorized vendor payments did not result in duplicate vendor payments. It suggested that DeCA use only appropriately trained personnel to enter valid invoice data that show invoice numbers compatible with the DeCA bill paying system. The memorandum also suggested that receipt information be entered only at the commissary stores and that commissary store employees delay reentry of receipt information until signed written verification of a proper reversal can be obtained. The memorandum further suggested that DeCA develop edit checks to identify possible duplicate payments and establish quality control programs to ensure that payments are adequately supported. DeCA concurred with the suggested actions in the memorandum and took steps to correct the identified conditions, except the delayed reentry of data until verification of the service center's reversal of the previous receipt. DeCA stated that commissary personnel should not reenter any receipt data that was initially input incorrectly, but that all corrections should be made at the service centers. We did not take exception to the alternative action proposed by DeCA.

o IG, DoD, "Management Advisory Memorandum - Controls Over Vendor Payments and Related Transactions for the Defense Commissary Agency's FY 1992 Resale Stock Fund Financial Statements," March 17, 1992, identified the results of preliminary review of internal controls over vendor payments. We identified conditions that affected the adequacy of internal controls and the reliability of the DeCA financial data. The memorandum suggested that DeCA document and enforce its operational policies and improve compliance with the Prompt Payment Act. In response, DeCA stated that proper procedures and policies had already been implemented but additional guidance would be prepared. DeCA also stated that its policy is to pay only proper invoices and receipts in compliance with the Prompt Payment Act. Further, DeCA blamed automated data processing complications on operating software problems, data storage, and equipment.

Appendix C. Organizations Visited or Contacted

Defense Agencies

Defense Commissary Agency, Fort Lee, VA
- Defense Commissary Agency, Central Region, Little Creek Naval Amphibious Base, VA
  - Camp LeJeune Marine Corps Amphibious Base Commissary, Jacksonville, NC
  - Cherry Point Marine Corps Air Station Commissary, Cherry Point, NC
  - Fort Eustis Commissary, Newport News, VA
  - Little Creek Naval Amphibious Base Commissary, Norfolk, VA
  - Norfolk Naval Base Commissary, Norfolk, VA
  - Oceana Naval Air Station Commissary, Virginia Beach, VA
- Defense Commissary Agency, Northeast Region, Fort Meade, MD
  - Aberdeen Proving Ground Commissary, Aberdeen, MD
  - Andrews Air Force Base Commissary, Forestville, MD
  - Bolling Air Force Base Commissary, Washington, DC
  - Quantico Marine Corps Base Commissary, Quantico, VA
- Defense Commissary Agency, Southwest Region, El Toro Marine Corps Air Station, CA
  - Imperial Beach Naval Ordnance Logistics Facility Commissary, Imperial Beach, CA
  - Miramar Naval Air Station Commissary, San Diego, CA
  - San Diego Naval Station Commissary, San Diego CA

Defense Finance and Accounting Service-Columbus Center, Columbus, OH

Appendix D. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)
  Deputy Under Secretary of Defense (Comptroller/Management)
  Deputy Under Secretary of Defense (Comptroller/Program/Budget)
Director, Defense Logistics Studies Information Exchange
Under Secretary of Defense for Personnel and Readiness
Assistant to the Secretary of Defense (Public Affairs)

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Auditor General, Department of the Navy

Department of the Air Force

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

Defense Organizations

Director, Defense Commissary Agency
Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
Director, Defense Logistics Agency
Director, National Security Agency
  Inspector General, National Security Agency
Inspector General, Central Imagery Office

Non-Defense Federal Organizations and Individuals

Office of Management and Budget
U.S. General Accounting Office
- National Security and International Affairs Division, Technical Information Center
- National Security and International Affairs Division, Defense and National Aeronautics and Space Administration Management Issues
- National Security and International Affairs Division, Military Operations and Capabilities Issues

Chairman and Ranking Minority Member of Each of the Following Congressional Committees and Subcommittees:

- Senate Committee on Appropriations
- Senate Subcommittee on Defense, Committee on Appropriations
- Senate Committee on Armed Services
- Senate Committee on Governmental Affairs
- House Committee on Appropriations
- House Subcommittee on National Security, Committee on Appropriations
- House Committee on Government Reform and Oversight
- House Subcommittee on National Security, International Affairs, and Criminal Justice, Committee on Government Reform and Oversight
- House Committee on National Security
- House Panel on Morale, Welfare and Recreation, Committee on National Security

Part IV - Management Comments

Defense Commissary Agency Comments

DEFENSE COMMISSARY AGENCY
HEADQUARTERS
FORT LEE, VIRGINIA 23801-6300

REPLY TO
ATTENTION OF

MAY 18 1995

IR

MEMORANDUM FOR INSPECTOR GENERAL, LOGISTICS SUPPORT DIRECTORATE,
400 ARMY NAVY DRIVE, ARLINGTON, VA 22202-2884

SUBJECT: Audit Report on the Statement of Financial Position for the Commissary Resale Stock Fund, as of September 30, 1994 (Project No. 5LA-2002)

Reference: DoDIG Memorandum, dtd April 19, 1995, SAB.

Attached is the DeCA reply to the recommendations provided in subject report. If you have any questions, please contact Mr. Ben Mikell at (804) 734-8103.

RONALD P. McCOY
Colonel, USAF
Chief of Staff

Attachments:
As Stated

DEFENSE COMMISSARY AGENCY REPLY

SUBJECT: Draft Audit Report on the Statement of Financial Position for the Commissary Resale Stock Fund, as of September 30, 1994

Finding A. Accounts Receivable

Recommendation 1. We recommend that the Director, Defense Commissary Agency, establish an allowance for uncollectible accounts based on aging and collectibility of accounts receivable.

Action Taken. Concur. DeCA is currently working with DFAS-CO to review all processes related to accounts receivable. In conjunction with this review, DeCA will request that DFAS-CO assist in performing an analysis of accounts receivable to determine an appropriate value for establishment of an allowance for uncollectible accounts receivable. Once that value is determined, an allowance for uncollectible accounts receivable will be established in DeCA's financial records.

DeCA will have an allowance account for uncollectible accounts receivable established prior to the end of FY 1995.

Finding B. Inventory

Recommendation 1. Implement systematic follow-up by the regions to ensure commissary stores receive transferred merchandise and retain documentation to support transfers of merchandise.

Action Taken. Non-Concur. A systematic follow-up by DeCA region personnel is not necessary to account for merchandise transferred in/transferred out. However, store records are required to be reconciled and DeCA Directive 70-16, dated August 31, 1994, requires reconciliation of transfers by the service centers. This required reconciliation is currently being performed.

DIBS has now been deployed at all stores and instructions have been fielded (DeCA Directive 70-6, dated July 23, 1993) to properly account for all transfers in/transfers out. We have included guidance for every type of discrepancy that we had previously noted. This should greatly reduce unmatched transfers in/out.

Recommendation 2. Implement procedures to control the entry of merchandise receipts into the computer system by requiring the appropriate supporting documentation.

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Action Taken. Concur. DeCA has procedures in place to control the entry of merchandise receipts into its computer system. Receipts are entered into the computer system at the store level by MSC personnel. When receipts are erroneously entered in the business system at the store level, those receipts cannot be corrected by the store but rather at the service centers as an internal control. For service center personnel to make a correction, store personnel must send a correction letter with an explanation/support to the service center at which time, a correction to a receipt will be entered into the system by the service center.

Since service center access to the system is limited/ controlled by password access and password access is assigned based on job functions, access is restricted. The system records the user's password so that supervisory personnel may look into the system and review an entry made at the service center and the password used to gain access.

The procedures and controls in place are adequate to prevent unauthorized receipt entries.

Recommendation 3. Implement the internal management control program effectively at the store level by having the regions review, approve, and retain the checklists for the stores.

Action Taken. Partially Concur. DeCA agrees that the region should ensure that the internal control checklist is completed and updated timely, and that the region should ensure that responses are appropriate.

DeCA has implemented a Zone Manager concept which divides each region into zones. Each zone has up to ten stores with a zone manager assigned to each zone. The zone manager works for the region and constantly travels from one store to another within the zone. DeCA has recently completed selection and training of the zone managers. Additional tools are being developed to make the zone managers more effective and responsive.

Zone managers will be instructed to ensure that all stores in their zone have completed the internal control checklist. Zone managers will also be instructed to review the internal control checklists and ensure that the responses are appropriate and accurately reflect the conditions at the store.

We do not see where it would be beneficial for the region to obtain a copy of the internal control checklist and retain it at the region headquarters. Therefore, the checklist will be retained at the store level.

Recommendation 4. Implement controls to ensure that commissary store personnel independent of the loss prepare timely, effective reports of survey.

Action Taken. Concur. DeCA has provide additional guidance in the following: Memorandum, Subject: Posting Adjustments for Government Property Loss or Damaged (GPLD) Survey Certificate, DeCA Form 40-70, dated May 5, 1994; Memorandum, Subject: Change of Accountable Officer Status/Allowance Variance in CONUS Grocery Accounts-Policy Letter 40-46, dated Sep 29, 1994. Additionally, DeCA Directive 40-15, Accounting & Reporting of Government Property, Lost, Damaged, or Destroyed, is currently being revised and should be fielded later this year. It should be noted, however, that, in the incidences cited in the report, DeCA policy and procedures were not followed.

To prevent similar occurrences, commissary officers have been delegated as the accountable officer and the region directors have been delegated as the responsible officers. Zones have been established and zone managers are in place to provide assistance and a "quick response" as needed. With the zone manager program, a direct link has been established between the store, the region and the headquarters, and additional resources can be focused on weaknesses to prevent losses, and, to investigate losses that do occur in a timely fashion to include submission of appropriate documentation.

These changes will improve controls over all areas including Reports of Survey, and have a favorable impact on accountability.

Finding C. Accounts Payable

Additional Facts.

Paragraph: Internal Control Structure

The statement that, as a result of DeCA not reconciling the accounts payable general ledger account, errors went undetected and the account was apparently misstated is incorrect. Specifically, the $68.8 million error caused by Sagamahara Commissary attempting to make a receipt correction was detected by both the West Service Center and DeCA Headquarters Resource Management personnel in reviewing trial balance data and reconciling the inventory accounts for that commissary.

The journal voucher made by the headquarters staff was not an attempt to correct the STANFINS records but to ensure that the financial reports at the agency level were correct. The West

Service Center personnel were the appropriate personnel to make the correction to STANFINS. The assumption that the accounts payable amount for that commissary as of the end of September 1994 was misstated because of this error is invalid. Accounts Payable with Federal Entities is comprised of milstrip receipts; interfund billings can take as long as 6 months after receipt to be generated and posted to DeCA's records.

DeCA has initiated research to ensure that the error was corrected for the Sagamahara Commissary.

Recommendation. We recommend that the Director, Defense Commissary Agency, adhere to the DoD Accounting Manual by directing that Accounts Payable - Transactions With Federal Entities general ledger account be reconciled with the voucher documentation files.

Action Taken. Partially Concur. Currently, STANFINS does not have the capability to separate open transactions from closed transactions in determining the balance of a general ledger account on any given day. Without the capability in STANFINS to provide individual transactions, a reconciliation cannot be accomplished. DeCA requested DFAS-CO create a file, listing only the open detail transactions, which comprise the balance of General Ledger Account-Accounts Payable, Government, in a memorandum dated December 9, 1994. We expect to be able to review the initial listing in May 1995. Once visibility over individual transactions is available, DeCA will request assistance from DFAS-CO in developing a plan of action for reconciling the accounts payable general ledger account in order to comply with DoD accounting requirements.

Defense Finance and Accounting Service Comments

DEFENSE FINANCE AND ACCOUNTING SERVICE
1931 JEFFERSON DAVIS HIGHWAY
ARLINGTON, VA 22240-5291

MAY 2 6 1995

DFAS-HQ/AD

MEMORANDUM FOR DIRECTOR, LOGISTICS SUPPORT DIRECTORATE,
INSPECTOR GENERAL, DOD

SUBJECT: Preparation of Response to DoD(IG) Draft Report, "Statement of Financial Position for the Commissary Resale Stock Fund, as of September 30, 1994," (Project No. 5LA-2002)

As requested in your memorandum dated April 19, 1995, subject as above, attached are the comments on recommendations directed to the Defense Finance and Accounting Service in the subject report.

My point of contact is Ms. Melinda G. Graves. She may be reached at (703) 607-1579/1581 or DSN 327-1579/1581.

Edward A. Harris
Deputy Director for Business Funds

Attachment

Preparation of Response to DoD(IG) Draft Report, "Statement of Financial Position for the Commissary Resale Stock Fund, as of September 30, 1994," (Project No. 5LA-2002)

- **RECOMMENDATION A.2.a:**

  We recommend that the Director, Defense Finance Accounting Service (DFAS), establish an audit trail between the commissary stores and the general ledger for accounts receivable by ensuring that the AVK 500 report and the APC balance report reconcile with the general ledger account balance.

  DFAS COMMENTS: Concur. A System Change Request (SCR) to correct the disagreement between the AVK-902 and the AVK-500 reports was presented to the Configuration Control Board of Defense Finance and Accounting Service - Indianapolis (DFAS-IN). If approved, the SCR will be prioritized for inclusion in a future System Change Package (SCP). The SCR should provide an audit trail, by transaction, between the commissary stores and the general ledger for accounts receivable.

  The Standard Financial System (STANFINS) is undergoing massive programming changes to expand the fiscal year (FY) and Accounting Processing Code fields throughout the system. DFAS-IN estimated the SCR will be implemented in the SCP in the summer of 1995, if funding is provided. Our estimated completion date for corrective action on this Recommendation is dependent upon the completion of the SCR.

  ESTIMATED COMPLETION DATE: January 1996.

- **RECOMMENDATION A.2.b:**

  We recommend that the Director, DFAS, identify and correct deficiencies in the collection process for accounts receivable.

  DFAS COMMENTS: Concur. Before the summer of 1994, payments received without bill numbers were posted to a suspense account for research. Although the policy was discontinued in 1994, $700,000 remains in the suspense account. The research is ongoing and should be completed by the end of June 1995.

  Currently, technicians have 60 days to post a collection. If the correct customer or bill number is not included in the documentation, the technician is to contact the region, the

Attachment

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commissary, or the customer for the information. Our current policy includes filing proof of payment with the bill.

Many customers were billed more than once, especially during FY 1992. This problem has been addressed by the regions, Defense Commissary Agency (DeCA) Headquarters (HQ), and Defense Finance and Accounting Service - Columbus (DFAS-CO). Credits have been issued or the amounts have been reversed in all identified cases where duplicated payments were received.

We have taken several steps to improve internal controls and follow-up procedures for accounts receivable. In August 1994, our first follow-up letters were mailed, resulting in a tremendous response from our customers. At the end of August 1994, receivables over 120 days old constituted $63 million of the total receivables of $158.2 million, or 40 percent. As of April 1995, receivables over 120 days old constituted $41.2 million of the total receivables of $140.7, or 29 percent. Since June 1994, the Charge Sales Section has reduced the number of outstanding bills by approximately 11,000. Bills in the nine-month-old to two-year-old categories were reduced by 50 percent.

In March and April 1995, representatives from DeCA HQ and Charge Sales Section traveled to various commissaries to meet with finance offices and customers. Problems noted in each area were either resolved, or a plan of action was established to resolve the problems. We estimate over $2.5 million will be collected because of these meetings. Representatives from DeCA HQs and the Charge Sales Section plan to visit other locations in May 1995 to address their outstanding receivables.

ESTIMATED COMPLETION DATE: June 1995.

Attachment

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Audit Team Members

This report was produced by the Logistics Support Directorate, Office of the Assistant Inspector General for Auditing, DoD.

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