# Audit Report

OFFICE OF THE INSPECTOR GENERAL

**CONSOLIDATED REPORT ON THE CASH ACCOUNTABILITY IN THE DEPARTMENT OF DEFENSE, DISBURSING, IMPREST, AND CHANGE FUNDS**

Report No. 95-291

August 8, 1995

**Department of Defense**

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**Acronyms**

| | |
|---|---|
| DAO | Defense Accounting Office |
| DFAS | Defense Finance and Accounting Service |
| DSSN | Disbursing Station Symbol Number |

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

August 8, 1995

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE

SUBJECT: Audit Report on the Consolidated Report on Cash Accountability in the Department of Defense, Disbursing, Imprest, and Change Funds (Report No. 95-291)

We are providing this final consolidated report for your information and use. This report summarizes the results of our review of DoD-wide cash accountability and internal control practices that resulted in 13 audit reports issued in FY 1994. Comments on a draft of this report were considered in preparing the final report.

Comments on a draft of this report conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are required.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Christian Hendricks, Audit Program Director, at (703) 604-9140 (DSN 664-9140), or Mr. Dennis L. Conway, Audit Project Manager, at (703) 604-9158 (DSN 664-9158). The distribution for this report is in Appendix H. The audit team members are listed inside the back cover.

Robert J. Lieberman
Assistant Inspector General
for Auditing

## Office of the Inspector General, DoD

**Report No. 95-291** **August 8, 1995**
(Project No. 3FG-2019)

# Consolidated Report on the Cash Accountability in the Department of Defense, Disbursing, Imprest, and Change Funds

## Executive Summary


**Introduction.** This DoD-wide audit was made to evaluate the accountability of cash and related assets. As of August 31, 1994, the DoD had a total of 624 disbursing offices with total cash accountability of $636 million in U.S. and foreign currency.

**Objectives.** The objectives of the audit were to verify accountability for cash and related assets; evaluate the adequacy of procedures and determine the accuracy of records used to support cash accountability at DoD accounting offices and organizations with imprest funds; assess compliance with applicable laws and regulations; and evaluate the management control program as it pertains to the audit objectives.

**Audit Results.** DoD had adequate accountability over cash at the 13 locations included in our review. The results of our 13 reports verified that cash on hand and related assets, such as checks and food stamps, generally agreed with accountability records. Also, adequate procedures were in place to ensure the accuracy of records used to support cash accountability. However, cash management and verification reviews were not adequately or regularly performed. As a result, excess cash balances of $15.3 million were maintained. This amount was not needed for operational requirements and could cost the U.S. Treasury $2 million in unnecessary interest expense over the 6-year Future Years Defense Program. Furthermore, DoD can not ensure there is a continued need for more than 1,000 imprest funds throughout the Department.

The DoD management control program as it pertains to the audit objectives was implemented, but material management control weaknesses existed in managing overall cash operations and in practices used to manage imprest funds.

**Summary of Recommendations.** During this DoD-wide audit, we issued 13 reports and 10 recommendations to activity managers. Management took responsive actions related to these recommendations that will correct weaknesses in the internal control and physical security systems at DoD disbursing activities. Additionally, in this report we make recommendations to the Director, Defense Finance and Accounting Service to improve the cash management and verification review process.

**Management Comments.** We provided a draft of this report to management on May 24, 1995. Comments from the Deputy Director for Finance, Defense Finance and Accounting Service, were received on July 20, 1995. The Deputy Director concurred with our recommendations to periodically conduct cash management reviews, require assessment of cashless alternatives, and perform reviews of cash verification reports. The Deputy Director nonconcurred with our recommendation to determine the frequency for conducting verifications of cash depending on the degree of financial risk. The Deputy Director stated that quarterly cash verifications are required by the

Treasury Financial Manual and that current Defense Finance and Accounting Service initiatives will significantly reduce the costs of the quarterly verifications. The Deputy Director's comments are reproduced in Part IV.

**Audit Response.** The comments to a draft of this report were responsive and left no unresolved issues. We accepted performance of verifications of cash on a quarterly basis as responsive corrective action to our recommendation to perform verifications at a frequency determined by financial risk, given that the number of imprest funds in DoD will be significantly reduced.

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# Part I - Introduction

# Background

**Purpose.** The purpose of this report is to present an overall picture of cash accountability within the Department of Defense (DoD). This report summarizes the results of 13 audits conducted by the Office of the Inspector General (IG), DoD. See Appendix A for a listing of reports issued to the 13 activities audited.

**Guidance for Management of Cash.** Treasury Financial Manual, Volume I, Part 6, Chapter 8000, "Cash Management," June 1, 1994, and Title 31, Code of Federal Regulations, Part 206, "Management of Federal Agency Receipts, Disbursements, and Operation of the Cash Management Improvements Fund," July 1, 1994, require Government agencies to conduct financial management activities in a manner that will minimize U.S. Treasury cash requirements and preclude unnecessary borrowing. This guidance establishes procedures for Government agencies to follow to ensure prudent cash management practices when developing and implementing regulations, systems, and instructions.

**Accountability for Public Funds.** DoD Regulation 7000.14, "DoD Financial Management Regulation, Disbursing Policy and Procedures, Volume 5," December 16, 1993, implements all policy and procedures for disbursing officers throughout the DoD. According to this Regulation, all disbursing officers in the DoD are held personally and pecuniarily accountable for their disbursing acts and for the legal expenditure of the public funds placed under their control.

Within the DoD, disbursing officers are entrusted with public funds to pay the public, members of the military, and civilian employees. Those officers are accountable for public funds whether on hand with agents, cashiers, or in depositories; and for maintaining accountability and presenting such to authorized personnel for verification at any time.

Disbursing officers are authorized to maintain U.S. currency and coin on hand, at their own personal risk, for official disbursements and accommodation transactions. Funds that qualify as cash held at personal risk include disbursing funds, imprest funds, and change funds. As of August 31, 1994, the DoD had a total of 624 disbursing offices with total cash accountability of $636 million in U.S. and foreign currency. These 624 disbursing offices have issued over 1,000 imprest funds amounting to $3.5 million.

## Objectives

The objectives of the audit were to:

o verify accountability for cash and related assets,

o evaluate the adequacy of procedures used to determine the accuracy of records that support cash accountability at DoD accounting offices and organizations with imprest funds,

o assess compliance with applicable laws and regulations, and

o evaluate compliance with the DoD's management control program as it pertained to the audit objectives.

## Scope and Methodology

This financial-related audit on cash accountability in DoD disbursing, imprest, and change funds was performed from July 27, 1993, through November 14, 1994. Results of the audit, included in this consolidated report, represent 13 unannounced audits (see Appendix A) conducted at 13 judgmentally selected locations. DoD had a total of 624 disbursing offices with a total accountability of $533.8 million in U.S. currency and $102.2 million in foreign currency as of August 31, 1994, (see Appendix B for details on the amounts of funds managed by each DoD component). The 624 disbursing offices had issued over 1,000 imprest funds amounting to $3.5 million.

The 13 audits discussed in this consolidated report were performed on 5 disbursing office funds, 15 imprest funds, and 2 commissary change funds. Authorized cash on hand totaled $165,346 for the 22 funds audited (see Appendix C). These unannounced audits were performed during the period December 7, 1993, through November 14, 1994.

We reviewed accounting documents associated with the cash and related assets held by the disbursing officer. Also, we observed physical controls over cashiers' areas and reviewed procedural controls over security including the opening and closing of safes. (See Appendix D for the results of significant controls over cash accountability reviewed.)

We reviewed 13 reports prepared by DoD cash verification teams to determine whether the need for imprest funds was evaluated (see Appendix E). As a result of conditions noted during the audit of the Defense Accounting Office (DAO) at

Camp Lejeune, the scope of the audit was expanded to include a review of exchange-for-cash services and commissary change funds throughout the DoD. Accordingly, we analyzed the financial records of 59 disbursing offices whose total accountability of $62.6 million represented nearly one-third of the $193.6 million in cash and related assets at all of the Navy and Marine Corps disbursing offices. We also reviewed change funds amounting to $4.4 million provided by DoD disbursing offices to the Defense Commissary Agency.

This audit was completed according to auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD, and included such tests of internal controls as were considered necessary. No computer processed information or statistical sampling was involved. Organizations visited or contacted are listed in Appendix G.

## Management Control Program

**Management Controls and Security Evaluated.** Management controls over the 22 funds reviewed were adequate, in that vouchers in the funds were properly approved and purchases of authorized items were supported by receipts. Controls over cash were generally adequate, since, cash on hand and supporting documentation equaled the amount of money authorized at 21 of the 22 funds; however, an immaterial cash overage was found at one imprest fund. No cash shortages were found.

We reviewed the physical controls over the imprest fund cashier area and procedural controls over security, including procedures for the opening and closing of security containers, and security alarm systems. Regulations require that combinations for safes and vaults be changed at least every 6 months and the combinations were changed as required at all locations examined except the Office of the Inspector General, DoD. This isolated deficiency was promptly corrected by management.

**Management Control Weaknesses Identified.** The results of the audits showed that cash on hand and related assets, such as checks and food stamps, generally agreed with accountability records. The DoD management control program as it pertains to the audit objectives was implemented. However, the audit identified material management control weaknesses as defined by OMB Circular A-123 "Internal Control Systems," August 4, 1983, and DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987. Specifically, we found material weaknesses in the use of exchange-for-cash services and commissary change funds, and practices for managing imprest funds (see Finding). All recommendations made during the audit and in this summary report, and ongoing DFAS efforts, if implemented, will assist in

correcting the weaknesses. See Appendix F for a summary of all benefits associated with this report. Potential monetary benefits identified during the audit were reported in the results of the audit report on Cash Accountability in the Department of Defense, Disbursing and Change Funds Maintained at Camp Lejeune, North Carolina, Report No. 95-055, dated December 12, 1994. Implementing the recommendations in that report will prevent further unnecessary interest expenses and result in $2 million of funds put to better use. A copy of this final report will be provided to the senior officials responsible for management controls within DFAS.

## Prior Audits and Other Reviews

No external audits or reviews of the disbursement or imprest funds had been performed by the Inspector General, Department of Defense, in the last 5 years at the 13 locations visited.

# Part II - Finding and Recommendations

# Implementing Effective Cash Management Practices

Cash management practices in DoD disbursing offices need improvement. This condition was caused by deficiencies in performance of cash management and verification reviews. Also, cashless alternatives were not fully considered to operate funds without the need for cash resources. As a result, excess cash balances of $15.3 million were maintained. This amount was not needed for operational requirements and could cost the U.S. Treasury $2 million in unnecessary interest expenses over the 6-year Future Years Defense Program. Furthermore, due to inadequacies in the cash management review process, DoD can not ensure there is a continued need for more than 1,000 imprest funds throughout the Department.

## Background

**Procedures for Managing Cash.** Title 31, Code of Federal Regulations, Part 206, "Management of Federal Agency Receipts, Disbursement, and Operation of Cash Management Improvements Fund," July 1, 1994, and the Treasury Financial Manual, Volume I, Part 6, Chapter 8000, "Cash Management," June 1, 1994, establish procedures for Government agencies to follow to ensure that prudent cash management practices are developed and implemented in regulations, systems, and instructions.

The DoD Manual 7220.9-M, the "DoD Accounting Manual" June 6, 1988, prescribes the accounting standards and related management requirements necessary to establish financial control over cash resources that are not part of the fund balance with the U.S. Treasury. Also, the DoD Accounting Manual requires Agencies to conduct financial activities in a cost-effective manner. Further, the DoD Accounting Manual establishes a policy that instructs DoD Components to design and operate cash management systems that keep amounts held outside the U.S. Treasury to a minimum.

**Standards for Holding Cash Outside of the U.S. Treasury.** The DoD Regulation 7000.14-R, "DoD Financial Management Regulation," Volume 5, December 16, 1993, defines cash resources that are not part of the fund balances with the U.S. Treasury as consisting of coins, paper currency, and negotiable instruments (such as checks on hand or checks in transit for deposit, and amounts on deposit with banks or other financial institutions).

The DoD Financial Management Regulation 7000.14-R, Volume 5, December 16, 1993, requires the following standards for cash held outside of the U.S. Treasury:

> o Documentation on the amount, location, purpose, and responsible individual for funds held outside the U.S. Treasury should be maintained by each Agency and shall be readily available.
>
> o Imprest funds and other cash held outside the U.S. Treasury shall be maintained at absolute minimum levels.
>
> o DoD Components, at least once each quarter, shall review funds held by their accountable officers to ensure that such funds are commensurate with actual needs and do not exceed maximum limitations.

**Reviews of Cash Management.** Each DoD Component is required by the Code of Federal Regulations and the guidelines in the Treasury Financial Manual to review cash management. The Code of Federal Regulations defines cash management as practices and techniques designed to accelerate and control collections, ensure prompt deposit of receipts, improve control over disbursement methods, and eliminate idle cash balances. Further, the Code of Federal Regulations states that:

> (a) An agency shall periodically perform cash management reviews to identify areas needing improvement.
>
> (b) As part of its cash management review process, an agency is expected to document cash flows in order to provide an overview of its cash management activities and to identify areas that will yield savings after cash management initiatives are implemented.

The Treasury Financial Manual requires each agency to maintain a separate and distinct set of written internal procedures covering the subject of cash management. To implement this requirement in Chapter 32 of the DoD Accounting Manual, DoD requires its Components to conduct cash management reviews to determine the need for upgraded or new procedures.

**Cash Verification and Procedures Guidance.** DoD Regulation 7000.14-R, "DoD Financial Management Regulation," Volume 5, December 16, 1993, prescribes cash review and verification requirements for safeguarding public funds. The regulation requires cash verification reviews for all DoD disbursement and imprest funds. It defines an imprest fund as:

> . . . a cash fund of a fixed amount established by an advance of funds, without charge to an appropriation, from a disbursing officer to a duly appointed cashier, for disbursement as needed in making cash payment for relatively small purchases.

The cash review and verification process is conducted by a team of disinterested persons appointed by the activities' commander. DoD policy requires both a physical count of cash and related assets, as well as an evaluation of the continuing need and funding level for each imprest fund established. Further, DoD Financial Management Regulation 7000.14-R states that cash operating needs must be reviewed regularly to ensure good cash management within the DoD, and to reduce unnecessary administrative, security, and other overhead costs.

**Alternatives for Achieving Cash Savings.** The DoD Accounting Manual states that the use of charge cards may generate significant cash management savings to the U.S. Treasury and administrative savings to DoD. Accordingly, the cash count verifications and reviews are a valuable tool for evaluating cash requirements and analyzing the implementation of possible cashless alternatives.

**Safeguarding Funds and Related Documents.** The disbursing officer is responsible for properly safeguarding all government funds with which entrusted and is held pecuniarily liable for the loss of such funds. At least semiannually, the disbursing officer must personally inspect (and maintain a record of such inspections) of office security measures to ensure that:

o Vaults and safes are not accessible to unauthorized persons.

o Windows and doors are limited and barred and locked at all times after business hours.

o The combination of all vaults, safes, and fund containers is changed at least once every 6 months and upon relief, transfer, separation, or discharge of the accountable individual.

o A record of combination change is kept inside each vault, safe, or container. The record must be dated and signed by the accountable individual.

o The dial to the vault, safe, or container is shielded by cardboard or other suitable material to limit the possibility of the combination being observed.

## Cash Management Practices

The Department of Defense did not always effectively implement cash management practices in its disbursing offices. We noted errors in the management and use of cash resources, the amounts of cash maintained in imprest funds, and the accountability for and safeguarding of public funds.

**Cash Resources.** DoD did not always effectively manage all cash resources located in its disbursing offices. During this DoD-wide audit, we found, and DFAS was reviewing, practices that allowed disbursing offices to exchange $10.9 million of checks for cash with post exchanges and provide $4.4 million of change funds to the Defense Commissary Agency. As a result of these practices, excess cash balances totaling $15.3 million were maintained.

**Exchanging Checks for Cash.** Disbursing offices had been exchanging checks for cash with Navy and Marine Corps exchanges for the purpose of cashing checks. Of the 59 disbursing offices contacted, accountability records for May 1994 showed that 12 offices provided exchange-for-cash services totaling $10.9 million.

The Navy and Marine Corps' practice was in noncompliance with United States Code, title 31, section 3302 (31 U.S.C. 3302) and was initially identified in November 1993 by the Defense Finance and Accounting Service (DFAS) Internal Review Office. In May 1994, the Deputy Director for Finance, Headquarters, DFAS, issued a memorandum directing disbursing officers to discontinue providing exchange-for-cash services not later than June 30, 1994. Subsequent memorandums revised the date to September 30, 1994.

As a result of the Navy and Marine Corps providing the exchange-for-cash services, the U.S. Government incurred unnecessary interest expenses and processing costs. If that practice was allowed to continue, a minimum interest expense of $0.6 million would have been incurred during the next 6 years. However, as a result of DFAS implementing the recommendation in our draft report, "Cash Accountability in the Department of Defense, Disbursing and Change Funds Maintained at Camp Lejeune, North Carolina," September 12, 1994, this practice was discontinued effective September 30, 1994. As a result, a minimum interest expense of $600,000 will be avoided during the next 6 years. We did not attempt to estimate processing costs that would be avoided as a result of discontinuing the exchange practice.

**Providing Change Funds to the Defense Commissary Agency.** Disbursing offices throughout DoD had been providing change funds to the Defense Commissary Agency.

The Office of the Deputy Director for Finance, Headquarters, DFAS, initiated an action memorandum in June 1994 to withdraw Defense Commissary Agency change funds totalling $4.4 million from the disbursing officers' accountability. The action memorandum estimated the U.S. Government would save approximately $170,000 in annual interest expenses.

Further, the memorandum stated that the Defense Commissary Agency could easily provide commissary change funds from its revolving fund. Because the Defense Commissary Agency is capable of providing change funds through its revolving fund, we recommended that the practice of providing such funds be discontinued. As a result of the recommendation in our draft report, "Cash Accountability in the Department of Defense, Disbursing and Change Funds Maintained at Camp Lejeune, North Carolina," September 12, 1994, the practice of disbursing officers providing such funds was discontinued effective September 30, 1994.

The disbursing offices were following DoD and the Services guidance that did not comply with 31 U.S.C. 3302. As a result of those funds being held outside the U.S. Treasury, unnecessary interest expenses totaling $0.7 million were incurred during a 3-year period. Because this practice has been discontinued, the U.S. Government will avoid a minimum of $1.4 million in interest expenses during the next 6 years.

**Amounts of Cash Maintained in Imprest Funds.** DoD personnel were not ensuring that the amounts of cash maintained in imprest funds were at the minimum amount possible. During this audit, we found that managers generally had not fully considered possible alternatives for operating cashless imprest funds operations during cash management reviews.

However, we observed one location which had recently implemented changes by using credit cards for small purchases. The procurement personnel located at the Naval Surface Warfare Center in Crane, Indiana, were using credit cards for small purchases instead of having the vendor ship the supplies on a cash-on-delivery basis. Because many of the previous cash-on-delivery expenditures were paid by the Naval Surface Warfare Center's imprest fund cashier, this new procedure had dramatically decreased the cash on hand requirements. For example, the imprest fund was replenished in July 1993 for a total of $42,435. However, by using the credit card, the imprest fund was replenished a total of only $16,153 in December 1993.

More widespread use of cashless alternatives such as credit cards could generate significant cash management savings to the U.S. Treasury and administrative savings to DoD.

**Accountability For and Safeguarding of Public Funds.** Practices used by DoD disbursing offices did not always ensure that public funds and related documents were effectively accounted for and safeguarded against potential risks of theft or misuse.

Specifically, security controls over the cashier's area needed to be strengthened to ensure proper safeguarding of funds and related documents at 3 of the 13 locations audited. We noted the following deficiencies:

o The disbursing office shared space with the travel office and unauthorized personnel were present during disbursing activities.

o The disbursement window was not secured, resulting in possible entry by unauthorized personnel who could reach through the window to open the door to the disbursing area.

o Records, payments, and checks were within reach of an unsecured disbursement window.

o Safe combinations were not changed and recorded every 6 months as required.

In addition, the cashier at one location dialed the combination to the safe without shielding it from our view. After the cashier completed the cash count, we were left unattended in the cashier's area with full access to the $4,000 change fund.

The conditions noted above increased the possibility for the theft of funds. Cashiers and disbursing officers must be reminded to continually review security controls to minimize the increased risk for a loss of funds. Emphasis on proper internal controls is a fundamental purpose for conducting cash management and cash verification reviews.

## Cash Management Reviews

Cash management reviews were not always performed to identify methods of prudent cash management throughout DoD. In addition, internal controls over cash were not fully effective because risk was not assessed to determine the

degree of vulnerability of imprest funds to fraud or mismanagement and the cost effectiveness of additional safeguards.

**Identification of Methods for Managing Cash.** The problems with imprest funds found during this audit occurred because DFAS's cash management reviews were not performed or did not always minimize the need for cash or ensure that funds were properly safeguarded.

The Code of Federal Regulations states that an agency shall periodically perform cash management reviews to identify areas needing improvements. The DoD Accounting Manual further requires Components to review cash management to determine the need for new or upgraded procedures.

If DFAS periodically reviewed cash management, DoD managers would be better able to identify weaknesses in cash management practices, similar to those found during this audit, and to take prompt corrective actions. Periodic use of cash management reviews by DFAS would also provide managers with greater assurance that funds are properly managed, accounted for, and safeguarded. As a result, DoD does not have sufficient assurances that a continued need or proper controls exist for more than 1,000 imprest funds throughout DoD that are not routinely subjected to cash management reviews.

## Cash Verification Reviews

The Department of Defense managers responsible for cash resources were not always adequately conducting cash verification reviews to ensure that cash on hand and related documents agreed with accountable records. Cash verification teams were sometimes either not conducting verifications of cash on hand and related documents to substantiate the accuracy of cash on hand or the reviews were not conducted in a random fashion.

**Conducting Cash Verification Reviews.** We judgmentally selected reports prepared by cash verification teams at 13 locations to determine whether an assessment had been made on the need for the funds. The teams had not determined or reported whether a continuing need existed for the imprest funds in 4 of the 13 reports. The results of our evaluation of cash verification reports for each activity reviewed are shown in Appendix E. For 3 of 13 (23.1 percent) locations, reviewed in this audit, cash verification reviews were either not conducted or were not conducted properly.

For the 5 disbursing and 15 imprest funds reviewed, verifications had not been performed for 1 disbursing and 2 imprest funds. It is important that these verifications are periodically conducted to ensure that the disbursing, imprest,

or change funds are commensurate with actual needs and do not exceed maximum limitations.

Further, although the DoD Financial Management Regulation specifically states that the scheduling of the verifications should be determined in random fashion (to ensure they do not predictably fall during a particular time period each quarter), we found that one activity had scheduled their reviews during the second week of each quarter.

Good cash management requires that idle cash balances be kept to a minimum. Unnecessary cash creates direct overhead costs for the security and administrative costs to protect it. Unless DoD managers responsible for cash resources periodically review the results of cash verification reports, deficiencies in complying with DoD cash management standards will continue to occur. DoD activities can better account for cash on hand by periodically conducting random verification reviews.

**Use of Risk Assessments.** The Department of Defense has not adequately implemented the use of risk assessments to determine the degree of vulnerability of imprest funds to fraud or mismanagement. The DoD Accounting Manual states that the frequency of reviews shall be decided by management based on vulnerability assessments. Within DoD, the costs of performing cash verification reviews on a quarterly basis may exceed the benefits gained from the reviews. Therefore, risk assessment is required to ensure a cost effective cash verification program that ensures cash funds receive coverage commensurate with financial risks.

We recognize that the Treasury Financial Manual, chapter 4, section 3040.90, requires cash verifications each quarter. However, more cost effective operations may be possible if DoD requests a waiver from the Treasury to conduct less frequent reviews of cash. Less frequent reviews, but more comprehensive analysis of the need for the funds by DFAS, may be warranted when minimal funds are involved, such as with imprest funds. Generally, it is desirable to maintain tight controls over cash; however, sometimes control is too costly for the associated risk.

## Use of Cashless Alternatives

DoD needed to consider cashless alternatives during cash management reviews to determine the continued requirements for imprest funds. Within the Federal Government, current initiatives in financial management practices are to streamline procedures and reduce unnecessary cash being held outside the U.S. Treasury through the use of cashless alternatives. For example, a National

Performance Review project team was established at the U.S. Treasury to review the possible elimination of imprest funds. Further, current trends, both within and outside Government, are to streamline financial services through electronic commerce, to reduce idle cash balances, and reduce unnecessary administrative overhead costs.

Within DoD, imprest fund initiatives are currently being reviewed by DFAS. For example, one initiative being considered by DFAS would transfer imprest funds from the disbursing officers' accountability to the appropriation which supports the imprest fund activity. Thus, the disbursing office would no longer be accountable for imprest funds; financial responsibility and cash levels of the imprest fund would be the responsibility of a fund administrator; and idle imprest funds could be withdrawn from DoD activities. Another significant proposal would increase DoD's use of credit cards.

Implementing cashless alternatives and continuing to identify more cost effective methods of administering imprest funds will help DoD managers minimize the amount of cash held outside of the U.S. Treasury. As of July 12, 1995, DFAS personnel informed us that they had implemented on-going initiatives in financial management to streamline procedures and reduce unnecessary cash being held outside the U.S. Treasury through the use of cashless alternatives.

## Corrective Actions for Strengthening Management of Cash Accountability

DFAS has initiated corrective actions for strengthening management of cash accountability. Specifically, DFAS discontinued the exchange-for-cash services to the Navy and Marine Corps post exchanges at the end of FY 1994. As a result, the amount of funds held outside the U.S. Treasury and the interest expenses that were being incurred will be reduced.

In addition, DFAS personnel stated that effective October 1, 1994, all change funds were under the ownership and management of the Defense Commissary Agency. As a result, the accountability for approximately $3.5 million of change funds has been transferred from DFAS disbursing officers to the Defense Business Operations Fund.

Further, the Deputy Director for Finance, DFAS, Headquarters has recognized that the amounts of cash maintained in imprest funds may not be at the minimum amount possible. The Deputy Director informed us that in October 1994, the continued need for over 1,000 imprest funds was addressed through submission of a proposal to the Director, DFAS. The proposal requested approval to:

o return all cash imprest funds to the issuing disbursing officers and charge any necessary imprest funds to the Operations and Maintenance appropriation of the activity needing the imprest fund; and,

o require and recommend that any activity requiring an imprest fund implement the Treasury Department and General Services Administration approved credit card program.

## Conclusion

Cash balances were maintained in excess of operational requirements which had cost the U.S. Treasury unnecessary interest expenses. We identified $15.3 million that were not needed for operational requirements. This amount could have cost the U.S. Treasury $2 million in unnecessary interest expenses over the 6-year Future Years Defense Program. Other unneeded cash fund balances not identified during the audit could exist causing additional unnecessary interest expenses to be incurred.

Furthermore, DoD can not presently ensure that there is or is not a continued need for more than 1,000 imprest funds maintained throughout the Department. The Deputy Director for Finance, DFAS, Headquarters recognized this and stated that action has been initiated.

DoD can strengthen its management of cash resources by implementing more effective cash management practices. Specifically, DoD should periodically conduct cash management reviews to ensure that effective practices are in place; perform cash verifications on a frequency determined by relative risk; consider cashless alternatives as part of cash management reviews; minimize the amount of cash held outside the U.S. Treasury in imprest funds; and perform periodic reviews on a sampling of cash verification reports to identify deficiencies in complying with DoD cash management standards.

## Recommendations, Management Comments, and Audit Response

**1. We recommend that the Director, Defense Finance and Accounting Service, conduct cash management reviews of all disbursing, imprest, and change funds on a periodic basis to ensure that effective practices are in place.**

**Management Comments.** The Deputy Director for Finance concurred with Recommendation 1., stating that all recommended actions will be complete by July 12, 1995. The Deputy Director for Finance's oversight of quarterly verifications of cash and periodic reviews of cash needs will ensure that effective cash management practices are in place.

**2. We recommend that the Director, Defense Finance and Accounting Service, perform cash verifications of disbursing, imprest, and change funds on a frequency determined by financial risk.**

**Management Comments.** The Deputy Director for Finance did not concur with Recommendation 2. and stated that verifications of cash are required at least once each quarter by the Treasury Financial Manual. Further, the Deputy Director stated that current initiatives to eliminate imprest funds and use credit cards will significantly reduce the cost of quarterly cash verifications.

**Audit Response.** Even though the Deputy Director for Finance nonconcurred with our recommendation, his comments satisfy the intent of Recommendation 2. Quarterly verifications of the reduced number of imprest funds will ensure cash accountability is maintained within DoD.

**3. We recommend that the Director, Defense Finance and Accounting Service, require assessment of cashless alternatives as part of cash management reviews to minimize the amount of cash held outside the U.S. Treasury in imprest funds.**

**Management Comments.** The Deputy Director for Finance concurred with Recommendation 3. stating that all recommended actions will be completed by September 30, 1995.

**4. We recommend that the Director, Defense Finance and Accounting Service, perform periodic reviews on a sampling of cash verification reports to identify deficiencies in complying with DoD cash management standards.**

**Management Comments.** The Deputy Director for Finance concurred with Recommendation 4. stating that all recommended actions will be completed by September 30, 1995.

# Part III - Additional Information

# Appendix A. Summary of Reports Issued During the Audit

Report No. 94-055, "Cash Accountability in the Department of Defense, Supply Department Imprest Fund, Naval Air Station, Norfolk, Virginia," March 17, 1994. Our surprise audit on December 7, 1993, disclosed no discrepancies in the handling of funds in the imprest fund. The cash and amounts on vouchers on hand in the fund when the cash count was made equaled the amount of money authorized to be in the fund. Control over the fund was adequate in that the vouchers were properly approved, disbursements were made only for authorized purchases, and disbursements were supported by receipts.

Report No. 94-056, "Cash Accountability in the Department of Defense, Imprest Fund Maintained Within the Defense Accounting Office, Fort Eustis, Virginia," March 17, 1994. Our unannounced audit on December 7, 1993, showed an overage of $4. The total value of the imprest fund is $5,000. The overage was due to the imprest fund cashier using her personal funds to make change for reimbursement. Although the overage was not material, installation personnel had not identified the discrepancy during two prior cash counts. We reported the discrepancy to the imprest fund cashier's supervisor and the Defense Accounting Finance Officer, and they took corrective action by assuring us that corrective procedures would be implemented. Controls over the fund were adequate in that vouchers were properly approved, disbursements were made only for authorized purchases, and disbursements were supported by receipts. However, the practice of comingling personal funds with imprest funds should be discontinued.

Report No. 94-057, "Cash Accountability in the Department of Defense, Imprest Fund Maintained Within First Medical Group, Langley Air Force Base, Virginia," March 17, 1994. Our surprise audit on December 8, 1993, disclosed no discrepancies in the handling of funds in the imprest fund. The cash and amounts on vouchers on hand in the fund when the count was made equaled the amount of money authorized to be in the fund. Control over the fund was adequate in that vouchers were properly approved, disbursements were made only for authorized purchases, and disbursements were supported by receipts.

Report No. 94-058, "Cash Accountability in the Department of Defense, Disbursing Symbol Station Number 6351, Finance and Accounting Office, Fort Belvoir, Virginia," March 17, 1994. Our surprise audit on December 16, 1993, disclosed no discrepancies in the handling of funds in the Finance and Accounting Office Disbursing Symbol Station Number 6351, Fort Belvoir, Virginia, or the imprest fund at the base contracting office. The cash on hand

in the disbursing office when the count was made equaled the amount of money authorized to be in the disbursing office. Control over the disbursing office was adequate. The imprest fund controls were adequate in that vouchers were properly approved, disbursements were made only for authorized purchases, and disbursements were supported by receipts.

Report No. 94-086, "Cash Accountability in the Department of Defense, for the Imprest Fund Maintained at the Defense Logistics Agency, Sharonville, Ohio," April 20, 1994. Our surprise audit on January 20, 1994, disclosed that the imprest fund maintained at the Defense Logistics Agency, Sharonville, Ohio, was generally well managed, and no discrepancies were identified. Specifically, the cash and amounts on vouchers on hand in the fund when our audit was made equaled the amount of funds authorized. Controls over the fund were generally adequate in that the vouchers were properly approved, disbursements were made only for authorized purchases, and disbursements were supported by receipts.

Report No. 94-087, "Cash Accountability in the Department of Defense, for the Imprest Fund Maintained Within the Directorate of Contracting, U.S. Army Soldier Support Center, Fort Benjamin Harrison, Indiana," April 20, 1994. Our surprise audit on January 19, 1994, disclosed no discrepancies in the handling of funds in the imprest fund. The cash and amounts on vouchers on hand in the fund when the cash count was made equaled the amount of money authorized to be in the fund. Control over the fund was generally adequate in that vouchers were properly approved, disbursements were made only for authorized purchases, and disbursements were supported by receipts. However, required quarterly reviews and unannounced cash counts by a team outside of the Directorate of Contracting had not been done since May 1, 1991.

Report No. 94-088, "Cash Accountability in the Department of Defense, for the Imprest Fund Maintained at the Defense Construction Supply Center, Columbus, Ohio," April 20, 1994. Our surprise audit on January 19, 1994, disclosed that the Defense Construction Supply Center (DCSC)-Columbus imprest fund was generally well managed, and no discrepancies were identified. Specifically, the cash and amounts on vouchers on hand in the fund when our audit was made equaled the amount of funds authorized. Controls over the fund were adequate in that vouchers were properly approved, disbursements were made only for authorized purchases, and all disbursements were supported by receipts.

Report No. 94-095, "Cash Accountability in the Department of Defense, Imprest Funds Maintained by the U.S. Army Corps of Engineers, Ohio River Division, Cincinnati, Ohio," May 11, 1994. Our surprise audit on January 19, 1994, disclosed no discrepancies in the handling of the imprest funds. When the cash counts were made, the cash and amounts on vouchers equaled the amounts of money authorized to be in the funds. Controls over the funds were

generally adequate in that vouchers were properly approved, disbursements were made for authorized purchases, and disbursements were supported by receipts. We noted, however, that the imprest funds were used to pay claims for local travel, in accordance with a local U.S Army Corps of Engineers regulation. That practice does not agree with the newly revised DoD Financial Management Regulation 7000.14-R, Volume 5, dated December 16, 1993. The local Engineer regulation should be updated to agree with the recently published DoD Financial Management regulation.

Report No. 94-186, "Cash Accountability in the Department of Defense, Disbursement Fund and Imprest Funds Maintained in Crane, Indiana," September 9, 1994. Our surprise audit of the disbursement fund disclosed that cash on hand agreed with pertinent records. However, weaknesses were present in the procedures used to account for the disbursement fund. The Disbursing Office was not reconciling the cash book on a daily basis, was not accounting for all cash collections in the cash balance, and was holding undeposited checks for several weeks before deposit. Also, monies held for safekeeping were not properly maintained within the safe. Each of those practices could have resulted in a loss of funds by the Disbursing Office. As a result, the funds were not clearly identified as to whom they belonged. Most problems were a direct result of the office being understaffed. In addition, the appointment letter for the disbursing officer was no longer valid.

Report No. 94-187, "Cash Accountability in the Department of Defense, Imprest Fund Maintained by the U.S. Property and Fiscal Officer for Indiana," September 9, 1994. Our surprise audit of the imprest fund maintained by the U.S. Property and Fiscal Officer for Indiana disclosed that on the date of our cash count, January 19, 1994, the cash on hand and the amounts on vouchers equaled the amount of money authorized to be in the fund. Controls over the fund were generally adequate in that vouchers were properly approved, and disbursements were supported by receipts. We noted, however, that the imprest fund was used to pay spot awards for outstanding employee performance at the time of the act or achievement that prompted such recognition. That practice is good policy, but has not been authorized. Volume 1, "Treasury Financial Manual," June 1993, indicated that because the U.S. Treasury routinely granted an exception to the use of the imprest fund to pay spot awards, a waiver was granted to all agencies on a permanent basis if authorized by the agency head or policy designee. Since DoD has yet to approve that practice, DoD managers have less flexibility when funding cash awards than their civilian agency counterparts.

Report No. 95-016, "Cash Accountability in the Department of Defense, for a Disbursement Fund and an Imprest Fund Maintained at the Naval Air Warfare Center, Aircraft Division, Indianapolis, Indiana," October 24, 1994. Our surprise audit on January 19 and 20, 1994, of the disbursement fund and

imprest fund maintained at the Naval Air Warfare Center, Aircraft Division, Indianapolis, Indiana, disclosed no material discrepancies. However, we concluded that the internal controls over both the disbursement and imprest funds needed improvement and that the physical security for the disbursement fund should be strengthened. Those problems created a higher risk in management of Government funds.

Report No. 95-055, "Cash Accountability in the Department of Defense, Disbursing and Change Funds Maintained at Camp Lejeune, North Carolina," December 12, 1994. Our surprise audit of the disbursing and change funds disclosed that cash on hand and related assets such as checks and food stamps agreed with accountability records. However, contrary to United States Code, title 31, section 3302 (31 U.S.C. 3302), public funds were held outside the U.S. Treasury, which caused interest expenses to be incurred unnecessarily. Audit results further disclosed that those conditions were not isolated to the Defense Accounting Office at Camp Lejeune, North Carolina. Specifically twelve disbursing offices had improperly issued exchange-for-cash checks totaling $10.9 million to Navy and Marine Corps exchanges for the purpose of cashing checks during each of the 24 military pay periods. Also disbursing offices erroneously provided change funds totaling $4.4 million to the Defense Commissary Agency. As a result of those practices, we estimate that the U.S. Treasury has incurred interest expenses totaling $0.8 million since August 1987. Further, if those practices continue, we estimate the U.S. Treasury will incur another $2 million in interest expenses during the next 6 years.

Report No. 95-155, "Cash Accountability in the DoD Imprest Funds Maintained by the Office of the Inspector General, DoD," March 22, 1995. Our surprise audit of the imprest funds disclosed that cash on hand and related documents agreed with accountability records. Also, we found that procedures were adequate for reporting imprest fund overages or shortages, determining imprest fund cash requirements, reviewing the propriety of imprest fund payments, and storing and safeguarding imprest funds. In addition, the DoD management control program was deemed effective in that the audit disclosed no material weaknesses. However, the imprest fund maintained at the Washington Field Office, Defense Criminal Investigative Service was not replenished monthly and records were not maintained to support changes made to safe combinations. Also, the Financial Management Directorate in the Office of the Assistant Inspector General for Administration and Information Management did not always change safe combinations. These deficiencies were corrected promptly by management.

# Appendix B. Summary of Cash On Hand Within the Military Components

**Table. Schedule of DoD-Wide Cash Accountability and DSSNs as of August 31, 1994 (millions of dollars)**

| Military Component | Number of DSSNs | US Currency | Foreign Currency | Total |
|---|---|---|---|---|
| Army | 150 | $212.9 | $ 64.2 | $277.1 |
| Navy | 349 | 165.5 | 25.5 | 191.0 |
| Air Force | 98 | 152.5 | 10.2 | 162.7 |
| Marine Corps | 20 | 2.8 | 0.0 | 2.8 |
| DLA | 7 | 0.1 | 2.3 | 2.4 |
| **Total** | **624** | **$533.8** | **$102.2** | **$636.0** |

**Acronyms**

DLA Defense Logistics Agency
DSSNs Disbursing Station Symbol Numbers

# Appendix C. Amounts and Types of Funds Reviewed at Audit Locations

| Location of Activity | Disbursing | Imprest | Change | Authorized Cash on Hand |
|---|---|---|---|---|
| Arlington, VA (IG-DoD) | | $ 3,000[1] | | $ 3,000 |
| Camp Lejeune, NC | $25,000[2] | | $26,000[3] | 51,000 |
| Cincinnati, OH | | 7,000[4] | | 7,000 |
| Columbus, OH | | 10,000 | | 10,000 |
| Crane, IN (NSWC) | 10,000 | 13,000[5] | | 23,000 |
| Fort Belvoir, VA | 32,846 | 1,000 | | 33,846 |
| Fort Benjamin Harrison, IN | | 5,000 | | 5,000 |
| Fort Eustis, VA | | 5,000 | | 5,000 |
| Indianapolis, IN (NAWC) | 12,000 | 10,000 | | 22,000 |
| Indianapolis, IN (USPFO) | | 3,500 | | 3,500 |
| Langley AFB, VA | | 1,000 | | 1,000 |
| Norfolk NAS, VA | | 500 | | 500 |
| Sharonville, OH | | 500 | | 500 |
| **Total Funds** | **$79,846** | **$59,500** | **$26,000** | **$165,346** |

[1]Two imprest funds amounting to $2,500 and $500 were located at Arlington, VA.
[2]Two disbursing funds amounting to $20,000 and $5,000 were located at Camp Lejeune, NC.
[3]Two change funds amounting to $22,000 and $4,000 were located at Camp Lejeune, NC.
[4]Two change funds amounting to $3,000 and $4,000 were located at Cincinnati, OH.
[5]Two imprest funds amounting to $10,000 and $3,000 were located at Crane, IN.

**Acronyms**

| | |
|---|---|
| AFB | Air Force Base |
| IG, DoD | Inspector General, Department of Defense |
| NAS | Naval Air Station |
| NAWC | Naval Air Warfare Center |
| NSWC | Naval Surface Weapons Center |
| USPFO | U.S. Property and Fiscal Officer |

# Appendix D. Status of Significant Controls Over Cash Accountability

| Location of Activity | Cash Overage/Shortage | | Security Deficiencies | | Quarterly Cash Counts | | Proper Use of Funds | | Material Weaknesses | | Internal Control Deficiencies | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Yes | No | Yes | No | Yes | No | Yes | No | Yes | No | Yes | No |
| Arlington, VA (IG-DoD) | | X | X | | X | | X | | | X | X | |
| Camp Lejeune, NC | | X | X | | X | | X | | X | | | X |
| Cincinnati, OH | | X | | X | X | | | X | | X | | X |
| Columbus, OH | | X | | X | X | | X | | | X | | X |
| Crane, IN (NSWC) | | X | | X | X | | X | | | X | X | |
| Fort Belvoir, VA | | X | | X | X | | X | | | X | | X |
| Fort Benjamin Harrison, IN | | X | | X | | X | X | | | X | | X |
| Fort Eustis, VA | X | | | X | X | | X | | | X | | X |
| Indianapolis, IN (NAWC) | | X | X | | | X | X | | | X | | X |
| Indianapolis, IN (USPFO) | | X | | X | | X | X | | | X | | X |
| Langley AFB, VA | | X | | X | X | | X | | | X | | X |
| Norfolk NAS, VA | | X | | X | X | | X | | | X | | X |
| Sharonville, OH | | X | | X | X | | X | | | X | | X |

**Acronyms**

| | |
|---|---|
| AFB | Air Force Base |
| IG, DoD | Inspector General, Department of Defense |
| NAS | Naval Air Station |
| NAWC | Naval Air Warfare Center |
| NSWC | Naval Surface Weapons Center |
| USPFO | U.S. Property and Fiscal Officer |

# Appendix E. Review of Cash Verification Reports for Evaluation on the Need for Imprest Funds

**Table. Review of Cash Verification Reports for Evaluation on the Need for Imprest Funds**

| Location of Activity | Date of Verification | Need for Fund Reported? |
|---|---|---|
| Arlington, VA (IG, DoD) | 02/17/94 | yes |
| Camp Lejeune, NC | 05/26/94 | no |
| Cincinnati, OH | 12/14/93 | no |
| Columbus, OH | 10/10/93 | no |
| Crane, IN (NSWC) | 12/16/93 | yes |
| Fort Belvoir, VA | 09/27/93 | yes |
| Fort Benjamin Harrison, IN | 05/01/91 | yes |
| Fort Eustis, VA | 11/04/93 | no |
| Indianapolis, IN (USPFO) | 01/13/94 | yes |
| Indianapolis, IN (NAWC) | 09/22/92 | yes |
| Langley AFB, VA | 03/16/93 | yes |
| Norfolk NAS, VA | 12/10/92 | yes |
| Sharonville, OH | 12/17/93 | yes |

Four of the 13 quarterly cash count reports reviewed made no reference to cash requirements of the funds.

**Acronyms**

| | |
|---|---|
| AFB | Air Force Base |
| IG, DoD | Inspector General, Department of Defense |
| NAS | Naval Air Station |
| NAWC | Naval Air Warfare Center |
| NSWC | Naval Surface Weapons Center |
| USPFO | U.S. Property and Fiscal Officer |

# Appendix F. Summary of Potential Benefits Resulting From Audit

| Recommendation Reference | Description of Benefit | Amount and/or Type of Benefit |
|---|---|---|
| 1. | Economy and efficiency. Will result in improved safeguarding of funds and minimize funds outside of the U.S. Treasury. | Undeterminable. The actual amount depends on future management actions. |
| 2.,3.,4. | Economy and efficiency and management control. Will result in potential benefits by reducing the amount of cash held outside the U.S. Treasury and establish more efficient methods of ensuring that cash management standards are applied. | Undeterminable. Amount is subject to results of how many imprest funds can be eliminated. |

# Appendix G. Organizations Visited or Contacted

## Office of the Secretary of Defense

Office of the Inspector General
- Assistant Inspector General for Administration and Information Management
- Assistant Inspector General for Investigations
  - Special Agent in Charge, Washington Field Office, Defense Criminal Investigative Service

## Department of the Army

U.S. Army Soldier Support Center, Fort Benjamin Harrison, IN
U.S. Army Corps of Engineers, Ohio River Division, Headquarters, Cincinnati, OH
U.S. Army Corps of Engineers, Ohio River Division, Ohio River Laboratory, Cincinnati, OH
Headquarters, U.S. Army Garrison, Directorate of Contracting, Fort Belvoir, VA
U.S. Property and Fiscal Office for Indiana, Indianapolis, IN

## Department of the Navy

Naval Air Station, Norfolk, VA
Naval Air Warfare Center, Aircraft Division, Indianapolis, IN
Naval Surface Warfare Center, Crane Division, Crane, IN
Marine Corps Air Station, New River, NC
Marine Corps Base, Camp Lejeune, NC

## Department of the Air Force

First Medical Group, U.S. Air Force Hospital Langley, Langley Air Force Base, VA

## Defense Agencies

Headquarters, Defense Finance and Accounting Service, Arlington, VA
- Defense Finance and Accounting Service Cleveland Center, Cleveland, OH
  - Defense Accounting Office, Arlington, VA
  - Defense Accounting Office, Bayonne, NJ

## Defense Agencies (cont'd)

Defense Accounting Office, Charleston, SC
Defense Accounting Office, Crane, IN
Defense Accounting Office, Great Lakes, IL
Defense Accounting Office, Naval Air Warfare Center, Indianapolis, IN
Defense Accounting Office, New London, CN
Defense Accounting Office, New Orleans, LA
Defense Accounting Office, Norfolk, VA
Defense Accounting Office, Oakland, CA
Defense Accounting Office, Pearl Harbor, HI
Defense Accounting Office, Pensacola, FL
Defense Accounting Office, Port Hueneme, CA
Defense Accounting Office, San Diego, CA
Defense Finance and Accounting Service Denver Center, Denver, CO
Defense Accounting Office, Langley Air Force Base, VA
Defense Finance and Accounting Service Indianapolis Center, Indianapolis, IN
Defense Accounting Office, Fort Belvoir, VA
Defense Accounting Office, Fort Eustis, VA
Defense Finance and Accounting Service Kansas City Center, Kansas City, MO
Defense Accounting Office, Camp Lejeune, NC
Defense Accounting Office, Camp Pendleton, CA
Defense Logistics Agency, Defense Construction Supply Center, Columbus, OH
Defense Logistics Agency, Sharonville, OH

# Appendix H. Report Distribution

## Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)
  Deputy Chief Financial Officer
  Deputy Comptroller (Program/Budget)
Assistant to the Secretary of Defense (Public Affairs)
Director, Defense Logistics Studies Information Exchange

## Department of the Army

Assistant Secretary of the Army (Financial Management and Comptroller)
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

## Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
  Director, Defense Finance and Accounting Service Cleveland Center
  Director, Defense Finance and Accounting Service Denver Center
  Director, Defense Finance and Accounting Service Indianapolis Center
  Director, Defense Finance and Accounting Service Kansas City Center
Director, Defense Logistics Agency
Director, National Security Agency
  Inspector General, National Security Agency

## Non-Defense Federal Organization and Individuals

Office of Management and Budget
Technical Information Center, National Security and International Affairs Division, U.S. General Accounting Office

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 Reform and Oversight
House Committee on National Security
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

# Part IV - Management Comments

# Defense Finance and Accounting Service Comments

DEFENSE FINANCE AND ACCOUNTING SERVICE

1931 JEFFERSON DAVIS HIGHWAY
ARLINGTON, VA 22240-5291

JUL 12 1995

DFAS-HQ/F

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

SUBJECT: Preparation of Response to DoD IG Draft Report, "Consolidated Report on Cash Accountability in the Department of Defense Disbursing, Imprest, and Change Funds," dated May 24, 1995 (Project No. 3FG-2019)

Our detailed comments on the draft report are attached.

for Pat Mahon

Roger W. Scearce
Brigadier General, USA
Deputy Director for Finance

Attachment:
As stated

Defense Finance and Accounting Service Comments
on DoD IG Draft Report, "Consolidated Report on Cash
Accountability in the Department of Defense Disbursing,
Imprest, and Change Funds," dated May 24, 1995
(Project No. 3FG-2019)

EXECUTIVE SUMMARY - Audit Results (last two sentences of first paragraph) - The estimated $2 million in unnecessary interest expense is an IG computed amount based on the $15.3 million in cash imprest funds the IG determined to be in excess. In October 1994, DFAS-HQ/FD addressed the continued need for over 1,000 imprest funds through submission of a proposal to the Director, DFAS to: 1) return all cash imprest funds to the issuing disbursing officers and charge any necessary imprest funds to the Operations and Maintenance appropriation of the activity needing the imprest fund; and, 2) require/recommend that any activity requiring an imprest fund implement the Treasury Department/General Services Administration approved credit card program (IMPAC). The portion of the statement regarding inadequacies in cash management reviews refers to a general failure to routinely evaluate the continued need for and the authorized amount of individual imprest funds.

Page 5 - First full sentence at top of page - Revise sentence to read: "All recommendations made during the audit and in this summary report and ongoing DFAS efforts, if implemented, will assist in correcting the weaknesses."

Page 8 - Implementing Effective Cash Management Practices (last sentence). In October 1994, DFAS-HQ/FD addressed the continued need for over 1,000 imprest funds through submission of a proposal to the Director, DFAS to: 1) return all cash imprest funds to the issuing disbursing officers and charge any necessary imprest funds to the Operations and Maintenance appropriation of the activity needing the imprest fund; and, 2) require/recommend that any activity requiring an imprest fund implement the Treasury Department/General Services Administration approved credit card program (IMPAC). The portion of the statement regarding inadequacies in cash management reviews refers to a general failure to routinely evaluate the continued need for and the authorized amount of individual imprest funds.

Page 10 - Cash Management Practices. Revise the first sentence to read: "The Department of Defense did not always effectively implement cash management practices in its disbursing offices."

Page 11 - Cash Resources. Revise the first and second sentences to read: "DoD did not always effectively manage all cash resources located in disbursing offices. During this DoD-wide audit, we found that DFAS was reviewing practices that allowed disbursing offices to exchange $10.9 million of checks for cash with post exchanges and provide $4.4 million of change funds to the Defense Commissary Agency."

Page 11 - Exchanging Checks for Cash - second paragraph. Revise the first sentence to read: "The Navy and Marine Corps' practice which had been in effect for many years was initially identified by DFAS in November 1993, to be in noncompliance with United States Code, title 31, section 3302 (31 U.S.C. 3302)."

Page 11 - Exchanging Checks for Cash - third paragraph (first and third sentences). Revise first sentence to read: "As a result of the Military Services providing exchange-for-cash services, the U.S. Government incurred unnecessary interest expenses and processing costs." Do not concur with the third sentence. DFAS had already initiated action to discontinue the exchange-for-cash practice prior to Audit Report No. 95-055, "Cash Accountability in the Department of Defense, Disbursing and Change Funds Maintained at Camp Lejeune, North Carolina," December 12, 1994. In fact, the practice was discontinued effective September 30, 1994, which is prior to issuance of the report. Even though that audit report did recommend discontinuance of the practice and DFAS concurred with the recommendation, the discontinuance of the practice did not occur as a result of the audit recommendation.

Page 11 - Providing Change Funds to the Defense Commissary Agency - last paragraph (page 11 continuing to page 12) - Do not concur with the last sentence. DFAS had already initiated action to discontinue providing the change funds to DeCA prior to Audit Report No. 95-055, "Cash Accountability in the Department of Defense, Disbursing and Change Funds Maintained at Camp Lejeune, North Carolina," December 12, 1994. In fact, the practice was discontinued effective September 30, 1994, which is prior to issuance of the report. Even though that audit report did recommend discontinuance of the practice and DFAS concurred with the recommendation, the discontinuance of the practice did not occur as a result of the audit recommendation.

Page 12 - Providing Change Funds to the Defense Commissary Agency - (first full paragraph on page 12). Do not concur with first sentence of this paragraph. Revise to read: "The disbursing offices were following DoD and Military Component guidance that did not comply with 31 U.S.C. 3302." In October 1992, DFAS initiated actions to discontinue providing the change funds. The action was completed effective September 30, 1994.

Page 13 - Cash Management Reviews - first paragraph (first sentence). Revise to read: "Cash management reviews were not always performed to identify methods of prudent cash management throughout DoD."

Page 15 - Use of Cashless Alternatives - first paragraph. Insert as new third sentence: "DFAS has implemented on-going initiatives in financial management to streamline procedures and reduce unnecessary cash being held outside the U.S. Treasury through the use of cashless alternatives."

Page 16 - Conclusion - second paragraph (first sentence). Revise to read: "Furthermore, DoD can not presently ensure that there is or is not a continued need for more than 1,000 imprest funds maintained throughout the Department."

Recommendations for Corrective Action

RECOMMENDATION 1: Conduct cash management reviews of all disbursing, imprest, and change funds on a periodic basis to ensure that effective practices are in place.

CONCUR/NONCONCUR: Concur. The DoD Financial Management Regulation, Volume 5, requires quarterly verification of all cash. A part of this requirement includes a review to determine whether the amount of cash is commensurate with actual cash needs. In addition, the Volume 5 also requires all disbursing officers to recalculate and certify their actual cash holding needs semiannually.

Estimated completion: Ongoing.

RECOMMENDATION 2: Perform cash verifications of disbursing, imprest, and change funds on a frequency determined by financial risk.

CONCUR/NONCONCUR: Nonconcur. Verification of cash held outside the U.S. Treasury is required to be performed not less frequently than once each quarter by the Treasury Financial Manual (I TFM 4-3040.90). Current DFAS initiatives to eliminate imprest funds and use the approved credit card method of small purchases will substantially reduce costs associated with the quarterly cash verifications.

Estimated completion: Ongoing.

RECOMMENDATION 3: Require assessment of cashless alternatives as part of cash management reviews to minimize the amount of cash held outside the U.S. Treasury in imprest funds.

CONCUR/NONCONCUR: Concur. DFAS is currently assessing the use of cashless alternatives to imprest funds, specifically, the use of the approved credit card program for small purchases.

Estimated Completion: September 30, 1995

RECOMMENDATION 4: Perform periodic reviews on a sampling of cash verification reports to identify deficiencies in complying with DoD cash management standards.

CONCUR/NONCONCUR: Concur. Periodic review on a sampling of cash verification reports should be performed by the Internal Review staffs of the cognizant DFAS Centers.

Estimated Completion: September 30, 1995

## Audit Team Members

This report was prepared by the Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, Department of Defense.

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