

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

**DEFENSE INFORMATION SYSTEMS AGENCY FY 1994
GENERAL-PURPOSE FINANCIAL STATEMENTS**

Report No. 96-003

October 5, 1995

Department of Defense

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Acronyms

DFAS	Defense Finance and Accounting Service
DISA	Defense Information Systems Agency
WAAS	Washington Headquarters Services Allotment Accounting System
WHS	Washington Headquarters Services



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October 5, 1995

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)
AND CHIEF FINANCIAL OFFICER
DIRECTOR, DEFENSE INFORMATION SYSTEMS
AGENCY
DIRECTOR, WASHINGTON HEADQUARTERS
SERVICES

SUBJECT: Audit Report on Defense Information Systems Agency FY 1994
General-Purpose Financial Statements (Report No. 96-003)

We are providing this audit report for information and use. We considered management comments on a draft of this report in preparing the final report.

Management 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 Ms. Mary Lu Ugone, Audit Program Director, at (703) 604-9529 (DSN 604-9529), or Mr. John M. Donnelly, Audit Project Manager, at (703) 604-9549 (DSN 664-9549). See Appendix H for the report distribution. The audit team members are listed inside the back cover.

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Office of the Inspector General, DoD

Report No. 96-003
(Project No. 5RF-6010.03)

October 5, 1995

Defense Information Systems Agency FY 1994 General-Purpose Financial Statements

Executive Summary

Introduction. The purpose of a uniform general ledger account structure is to ensure consistency of accounting treatment for the same or similar transactions and the preparation of reliable and comparable financial statements for management decision making. DoD regulations require DoD Components that receive appropriated funds to record financial transactions in a uniform standard general ledger account structure and to use the financial information in the structure to prepare general-purpose financial statements. Additionally, DoD regulations require the Components to maintain the structure by annually closing (zero balancing) revenue and expense accounts in the general ledger because those accounts are intended to reflect financial activity for an annual reporting period.

The Defense Information Systems Agency (DISA) received appropriated funds totaling about \$734 million for FY 1994. The DISA FY 1994 appropriated fund accounting system consisted of a headquarters reporting unit and 12 field reporting units. Washington Headquarters Services developed a standard general ledger account structure for DISA in the Washington Headquarters Services Allotment Accounting System. The DISA uses that structure to input headquarters' financial transactions into the accounting system.

Objectives. The audit objective was to determine whether DISA used the DoD general ledger account structure to prepare FY 1994 general-purpose financial statements and whether general ledger accounts in the structure were properly maintained. Also, we evaluated the DISA FY 1994 management control program as it related to general-purpose financial statements.

Audit Results. The DISA used budget execution reports instead of the DoD general ledger account structure to prepare FY 1994 financial statements. As a result, the statements:

- o omitted assets of about \$495 million and liabilities of about \$12 million,
- o misclassified liabilities of about \$199 million, and
- o overstated operating expenses by about \$63 million (Finding A).

The DISA did not request and the Washington Headquarters Services did not make annual accounting entries to close accounts in the DISA standard general ledger account structure. As a result, asset, equity, revenue, and expense account balances in the DISA standard ledger structure were overstated by about \$7.9 billion (Finding B).

The DISA management control program needs improvement because a material weakness related to preparation of complete and accurate general-purpose financial

statements was identified (Appendix A). Recommendations in the report, if implemented, will result in more meaningful and comparable FYs 1995 and 1996 financial statements.

See Part I for a discussion of the audit results and Appendix F for a summary of the potential benefits resulting from the audit.

Summary of Recommendations. We recommend that DISA use the DoD approved general ledger account structure to prepare FY 1995 and subsequent general-purpose financial statements, train employees assigned to prepare general-purpose financial statements, and implement adequate management control procedures.

We also recommend that the Washington Headquarters Services and DISA clarify responsibilities for making general ledger accounting closing entries and that Washington Headquarters Services make FY 1995 general ledger account closing entries to provide complete and accurate FY 1996 opening account balances.

Management Comments. The DISA concurred with recommendations to use the DoD approved general ledger account structure to prepare FY 1995 and subsequent general-purpose financial statements, to train employees assigned to prepare the general-purpose financial statements, and to implement adequate internal control procedures.

The Washington Headquarters Services and DISA concurred with recommendations to clarify responsibilities for making general ledger closing entries, and the Washington Headquarters Services agreed to make FY 1995 closing entries. See Part I for a discussion of management comments and Part III for the complete texts of management comments.

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Part I - Audit Results

Audit Background

Public Law 103-356, "The Federal Financial Management Act of 1994," title IV, requires audited Government-wide financial statements beginning in 1996. On June 6, 1995, the Deputy Chief Financial Officer advised DoD Components, including the Defense Information Systems Agency (DISA), of the FY 1996 reporting requirements.

Auditability of Financial Statements. On November 16, 1994, the Deputy Chief Financial Officer requested that DoD Components provide specific information concerning the adequacy of their accounting systems to produce auditable financial statements. The requested information was based on a series of questions prepared by the General Accounting Office (Appendix B). The DISA provided an initial response on December 2, 1994, and a revised response on May 31, 1995.

Initial DISA Response. On December 2, 1994, DISA provided information on the adequacy of accounting systems to produce auditable DISA financial statements to the Deputy Chief Financial Officer. The DISA stated that its appropriated fund accounting system was not capable of producing auditable financial statements. Further, DISA stated that its appropriated fund accounting system lacked a DoD standard general ledger needed to produce source data for financial statements.

Revised DISA Response. On May 31, 1995, DISA sent a revised response to the Deputy Chief Financial Officer, stating that its December 2, 1994, response was oriented toward its Defense Business Operations Fund activities. The revised response provided the following comments on the DISA appropriated fund accounting system:

- o an automated general ledger capability existed, but before the Chief Financial Officers Act, DISA was not required to use that capability for appropriated funds;
- o the preparation of accurate agency-wide financial statements for DISA appropriated funds was not required; and
- o the automated general ledger accounts had not been closed.

The revised response also stated that a Defense Finance and Accounting Service (DFAS) Defense Accounting Office, at DISA headquarters, would assist DISA in balancing the general ledger in FY 1995 and that financial accuracy may suffer until financial transactions of 15 field activities are consolidated into one accounting system.

In FY 1994, the DISA received appropriated funds totaling \$734 million. Appendix C shows the sources and amounts of FY 1994 appropriated funds.

Use of DoD Standard General Ledger. DoD 7000.14-R, "DoD Financial Management Regulation," volume 1, chapter 3, May 1993, includes key

accounting requirements for mandatory fiduciary general ledger and reporting requirements for the DoD. Key Accounting Requirement No. 1, "General Ledger Control and Financial Reporting," states that all accounting systems must have general ledger control and maintain an appropriate account structure approved by DoD. Key Accounting Requirement No. 1 also requires DoD managers and external Government officials to provide full financial disclosure and adequate financial information in required financial reports. The DoD approved general ledger account structure is described in DoD 7000.14-R, volume 1, chapter 7, May 1993. The structure includes the proprietary and budgetary account series shown in Table 1.

Table 1. General Ledger Account Structure

<u>Account Series</u>	<u>Account</u>
1000 series	Assets
2000 series	Liabilities
3000 series	Equity
4000 series	Budgetary
5000 series	Revenue
6000 series	Expense
7000 series	Gains, losses, and miscellaneous

All account series except the 4000 series are proprietary accounts. The DoD general ledger account structure consists of the accounts DoD Components use to prepare budgetary reports and general-purpose financial statement reports. Budgetary reports, which are derived from the 4000 series of accounts, primarily provide a status of appropriated funds, while general-purpose financial statement reports, which are derived from all other account series, primarily show the status and use of an organization's financial resources. Appendix D discusses the applicability of the DoD standard general ledger to appropriated funds, the benefits of using the DoD standard general ledger account structure, and the budgetary and financial reports that must be prepared from the DoD standard general ledger.

Financial Reports Prepared from the General Ledger Account Structure. DoD Directive 7220.9-M, "DoD Accounting Manual," chapter 94, October 1983, provides guidance on preparation of Form 220, Report on Financial Position (Form 220), and Form 221, Report on Operations (Form 221). Form 220 is an annual report on assets (1000 series), liabilities (2000 series), and equity (3000 series). Form 221 is an annual report on revenue (5000 series), expense (6000 series), and, if applicable, gains, losses, and miscellaneous (7000 series). Chapter 94 identifies the specific general ledger account numbers, within the applicable series, DoD Components should use as information sources in completing financial statement line items on Forms 220 and 221. DoD Directive 7220.9-M, chapter 93, provides guidance on the preparation of Form 1176, Report on Budget Execution (Form 1176). Chapter 93 also identifies the specific general ledger account numbers within the 4000 account series DoD Components should use as information sources in completing Form 1176.

Audit Results

Audit Objectives

The audit objectives were to determine whether DISA used the DoD general ledger account structure to prepare FY 1994 general-purpose financial statements and whether general ledger accounts in the structure were properly maintained. Also, we evaluated the DISA FY 1994 management control program pertaining to general-purpose financial statements. Appendix A discusses the audit scope and methodology.

Finding A. Defense Information Systems Agency Appropriated Fund Financial Statements

The DISA did not use the DoD approved standard general ledger account structure to prepare FY 1994 general-purpose financial statements.

The standard general ledger account structure was not used because DISA used the budget execution reports as the data source for the financial statements, DISA personnel had not been trained in the relationship between the general ledger account structure and financial statements, and the DISA management control program was not adequate to ensure that financial statements were prepared using proper sources of information.

As a result, DISA FY 1994 general-purpose financial statements were materially incomplete and inaccurate. The statements:

- o omitted military equipment assets of about \$495 million;
- o omitted liabilities of \$12 million for annual leave benefits earned, but not paid to employees;
- o misclassified liabilities of about \$3.3 million for payroll and related benefits earned, but not paid to employees;
- o included an arbitrary and unsupported allocation of \$199.2 million in accounts payable to the public and to other Government agencies; and
- o overstated operating expenses by about \$63 million.

Description of DISA Appropriated Fund Accounting System

The DISA FY 1994 appropriated fund accounting system was a widely dispersed nonintegrated system, consisting of a headquarters reporting unit and 12 field reporting units. The 12 reporting units performed their own accounting functions and manually submitted financial information to the Financial Operations Division, a headquarters organization, which reports directly to the DISA Comptroller. The Financial Operations Division consolidated the information and prepared required monthly, quarterly, and annual budget and financial reports. The Financial Operations Division also performed accounting services and prepared financial information for one reporting unit, the National Capital Region, which executes about 80 percent of DISA appropriated funds. Appendix E shows the DISA FY 1994 reporting units in the DISA appropriated fund accounting system, including six reporting units added in FY 1995.

Finding A. Defense Information Systems Agency Appropriated Fund Financial Statements

Washington Headquarters Services Allotment Accounting System. The Washington Headquarters Services Allotment Accounting System (WAAS) is an automated accounting system owned and managed by the Washington Headquarters Services. In February 1987, the DISA executed an agreement with Washington Headquarters Services (WHS) to use the WAAS to process financial transactions for the National Capital Region.

General Ledger Account Structure. The WAAS includes the DoD approved automated general ledger account structure, which provides general ledger control over appropriated funds. The DISA employees input National Capital Region financial transactions to WAAS through an on-line accounting and reporting system; the input automatically updates general ledger accounts. The DISA can access the WAAS to research general ledger account details. The WAAS also includes a program that makes annual entries to close general ledger accounts to maintain an accurate general ledger account structure for WAAS users.

Budgetary Financial Reports and Financial Statements. The WAAS generates monthly budget execution and quarterly budget reports for each customer by appropriation type. The budget reports generated by WAAS are described in Appendix D. The WAAS does not generate annual general-purpose financial statements. Therefore, WAAS users manually prepare annual financial statements, using, as source information, WAAS general ledger account balances. DoD Directive 7220.9-M prescribes the specific general ledger accounts to be used in preparing annual financial statements. The required annual financial statements are also discussed in Appendix D.

Preparation of FY 1994 Financial Statements

DISA used budgetary information in budget execution reports to prepare FY 1994 general-purpose financial statements. However, budget execution reports did not contain sufficient financial information needed to prepare accurate and complete FY 1994 general-purpose financial statements.

DISA Methodology for Preparing Financial Statements. The DISA did not have written procedures for preparing general-purpose financial statements. A DISA Financial Operations Division official used Form 1176 as the source document for preparing financial statements. The DISA used unofficial "crosswalk" methods, provided by a former employee, to transfer financial information from Form 1176 to Forms 220 and 221. Using Form 1176 and crosswalk formulas had limitations and resulted in inaccurate and incomplete FY 1994 financial statements as discussed below.

Limitations in Use of Budgetary Accounting. Budgetary accounts do not contain sufficient financial information needed to prepare complete and accurate financial statements. Budgetary accounting does not provide the following needed financial information:

Finding A. Defense Information Systems Agency Appropriated Fund Financial Statements

- o investments in military or other equipment;
- o investments in land, buildings, and assets under capital lease;
- o payroll and benefits owed but not paid to employees;
- o unfunded annual leave owed but not paid to employees; and
- o amounts owed Government agencies and the public.

In addition, use of Form 1176 as a source for operating expenses on Form 221 may result in an overstatement of operating expenses, because budgetary accounting does not distinguish between capital and noncapital equipment transactions. Budgetary accounting records both types of transactions in expense-type accounts. However, capital equipment transactions should be recorded in an asset account.

DISA FY 1994 Financial Statements Were Incomplete and Inaccurate. As a result of using the FY 1994 Form 1176, DISA FY 1994 financial statements were incomplete and inaccurate.

Equipment Understated by \$495 million. The DISA FY 1994 Form 220 showed a zero balance for line item 7.b., Military Equipment, even though the DISA standard general ledger balance for military equipment was \$495 million. This disparity occurred because the Form 1176 DISA used to prepare the FY 1994 Form 220 did not include a line for military equipment.

DoD Directive 7220.9-M, chapter 94, states that Form 220 is to be prepared from proprietary asset, liability, and equity accounts in the general ledger.

Annual Leave Liabilities Omitted. The DISA did not include liabilities of about \$12 million for accrued unfunded annual leave on its FY 1994 Form 220. Volume 4, chapter 10 of DoD 7000.14-R states that accrual of annual leave within the DoD is material and shall be recorded annually in DoD Component accounting records and financial statements. The DoD Components are required to record the liability for annual leave as it accrues, and the liability for annual leave is to be recognized until paid. The FY 1994 Form 1176 used by DISA to prepare its FY 1994 financial statements did not reflect the liability for unpaid annual leave earned by employees.

Payroll Liabilities Improperly Classified. The DISA improperly classified accrued liabilities for payroll and related benefits of about \$3.3 million on its FY 1994 Form 220. The DISA inappropriately included the \$3.3 million as part of line 10, Accounts Payable, on Form 220. The \$3.3 million should have been included on line 12, Accrued Payroll and Benefits. The improper classification occurred because Form 1176 used by DISA to prepare Form 220 did not include a separate line for accrued payroll and related benefits.

DoD 7000.14-R, volume 4, chapter 10, requires DoD Components to make reasonable payroll estimates of the costs of services performed but not paid to

Finding A. Defense Information Systems Agency Appropriated Fund Financial Statements

DoD military and civilian employees and to record the estimates in the appropriate proprietary account when a pay period does not coincide with the end of an accounting period. The DISA made the payroll estimates and recorded the estimates in the budgetary accounts, but DISA did not record the estimates in the appropriate proprietary account.

Allocations of Accounts Payable to Federal Agencies and to the Public. The DISA did not have a valid basis to allocate accounts payable from its FY 1994 Form 1176 to its FY 1994 financial statements. The DISA allocated \$199.2 million in accounts payable and accrued liabilities (line 13A2 of Form 1176) to line 10.a., Accounts Payable, Federal Agencies; and to line 10.b., Accounts Payable, Public, on Form 220. The DISA personnel had no justification to allocate \$42.6 million, to Accounts Payable, Federal Agencies, and \$156.6 million to Accounts Payable, Public. Additionally, DISA did not have a valid basis to allocate accounts payable in previous years. Form 1176, which DISA uses to prepare its FY 1994 general-purpose financial statements, does not include separate accounts to distinguish amounts owed to Federal Agencies and amounts owed to the public for receipt of purchased goods and services.¹

We were unable to independently determine the relative accuracy of the arbitrary allocation of accounts payable because DISA did not maintain records to support the allocation.

Operating/Program Expenses Overstated by \$63 Million. The DISA overstated operating and program expenses in its FY 1994 financial statement by \$63 million because DISA personnel used expenses accumulated in budgetary expense accounts instead of proprietary expense accounts as the source for the financial information. Specifically, DISA transferred financial information from Form 1176, line 16, Total Accrued Expenditures (Net), to Form 221, line 8, Operating/Program Expenses.

The transfer of information from Total Accrued Expenditures is not appropriate because it includes expenditures for capital items, while Operating/Program Expenses should not include expenditures for capital items. Chapter 94 requires DoD Components to capture expenditures for capital items in appropriate DoD standard general ledger asset accounts and to transfer the financial information in those accounts to Form 220, line 7, Property, Plant, and Equipment. The DISA significantly overstated line 8 of its FY 1994 Form 221 by including financial information that should have been on line 7 of its FY 1994 Form 220. We estimated that line 8 was overstated by about \$63 million because DISA spent \$63 million in FY 1994 to procure capital items.

¹The budgetary series of accounts separates total accounts payable into two specific account categories: accrued expenditures-unpaid, direct; and accrued expenditures-unpaid, reimbursable. However, this separation of accounts is not related to the proprietary account structure.

Oversight of DISA Financial Reporting Process

The DISA did not establish an adequate management control program to ensure that financial statements were properly prepared and reviewed. DISA neither

- o assigned personnel trained to know which financial information sources were to be used to prepare financial statements nor

- o established adequate controls to ensure that the DoD standard general ledger was used as the source for annual financial statements submitted to the Department of Treasury.

Personnel Assigned to Prepare Annual Financial Statements. Neither the Financial Operations Division official assigned to prepare the FY 1994 annual general-purpose financial statements nor the official's supervisor used DoD guidance concerning the use of proprietary general ledger accounts as the source for preparing annual financial statements. The supervisor was aware that Form 1176 was used as the source for preparing appropriated fund financial statements.

The official assigned to prepare general-purpose financial statements received minimal training on the preparation of financial statements, and DISA had no written procedures on preparing and reviewing financial statements. The official used Form 1176 to prepare the FY 1994 financial statements because the previously assigned employee orally advised the official to do so. The official has prepared DISA financial statements for about 8 years.

Need for Training. We believe that DISA needs to establish a continuing professional education program to train employees in the accounting and reporting requirements related to the Chief Financial Officers Act of 1990. The Chief Financial Officers Act imposed new accounting system and reporting requirements on Federal accountants and auditors. The requirements are continually changing to improve the accuracy and usefulness of Federal financial statements. The DoD Component heads need to ensure that employees are trained to adequately implement the new and changing requirements.

Management Control Program. The DISA Comptroller did not establish an adequate management control program to ensure that general-purpose financial statements were prepared using proper source information. The DISA Comptroller did not ensure that assigned personnel had sufficient skills or training to prepare accurate and complete financial statements. In addition, the DISA Comptroller FY 1994 management control program did not detect the material weakness because the assigned assessable unit manager neither performed risk assessments nor performed management control reviews of the DISA process for preparing FY 1994 financial statements (Appendix A). Due to the lack of an adequate management control program, the DISA Comptroller was not aware that general-purpose financial statements were prepared using an improper source. As a result, in November 1994, the DISA Comptroller transmitted materially incomplete and incorrect FY 1994 general-purpose financial statements to the Defense Finance and Accounting Service.

Finding A. Defense Information Systems Agency Appropriated Fund Financial Statements

Recommendations for Corrective Action

A. We recommend that the Director, Defense Information Systems Agency, implement the requirements of DoD 7000.14-R, "DoD Financial Management Regulation," volume 1, May 1993, and DoD Directive 7220.9-M, "DoD Accounting Manual," chapter 94, October 1983 by:

1. Issuing a policy memorandum requiring use of the DoD approved general ledger account structure in the Washington Headquarters Services Allotment Accounting System as source information in preparing FY 1995 and subsequent fiscal year appropriated fund general-purpose financial statements.

2. Establishing a continuing professional education program and train employees assigned to prepare general-purpose financial statements in the relationship of proprietary general ledger accounts and financial statement line items.

3. Establishing appropriate management control procedures as required by DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987, to verify that financial statements are prepared using the DoD approved general ledger account structure and annually reviewing the controls to verify that the controls are adequate and working.

Management Comments

DISA concurred with the recommendations. In responding to Recommendation A.1., DISA stated that a policy memorandum would be issued by October 1995, requiring that the general ledger account structure in the WAAS be used as source information in preparing FY 1995 and subsequent fiscal year appropriated fund general-purpose financial statements.

With respect to Recommendation A.2., DISA stated that additional training would be provided to personnel preparing general purpose financial statements and that the additional training would be documented in the employees' FY 1996 Individual Development Plans.

Concerning Recommendation A.3., DISA stated that appropriate management control procedures would be established by the second quarter of FY 1996. For the complete text of management comments see Part III.

Finding B. Annual General Ledger Account Closing Entries

The DISA did not request and the WHS did not make annual general ledger account closing entries to close accounts in the DISA general ledger account structure. The closing entries were not made because WHS and DISA did not clearly define responsibilities for making annual closing entries. As a result, the DISA FY 1995 opening general ledger account structure included materially incorrect account balances. Account balances were overstated by:

- o \$2.6 billion for the asset account series,
- o \$2.3 billion for the equity account series,
- o \$368 million for the revenue account series, and
- o \$2.6 billion for the expense account series.

Annual Accounting Entries

DoD Guidance on Accounting Entries. Volume 4 of DoD 7000.14-R, "Financial Management Regulation," January 1995, requires annual accounting entries to general ledger accounts in order to maintain accurate accounts. The specific accounting entries required to close² general ledger proprietary accounts are as follows.

Funds with Treasury (Account 1013). Accounting entries are required annually to close general ledger account 1011, Funds Collected, and account 1012, Funds Disbursed. The entries zero out the balances in accounts 1011 and 1012 and transfer the balances to account 1013, Funds with Treasury. The accounting entries update account 1013 for cash collections and cash disbursements made during the fiscal year.

Expense Accounts (Account 6000 Series). Accounting entries are required annually to close general ledger account 6000 series expense accounts and to transfer the balances to account 3100, Appropriated Capital. The

²Closing account balances means adjusting the balances of revenue and expense accounts at zero to prepare the accounts to measure the net income of the next period and transferring current balances to the equity account. The closing process is also performed on asset accounts that measure cash collections and cash disbursements.

Finding B. Annual General Ledger Account Closing Entries

entries result in adjusting 6000 series accounts to zero balances and in reducing an organization's appropriated capital balance by the amount of the transfer to account 3100.

Revenue Account (Account 5910, Miscellaneous Reimbursements).

An accounting entry is required annually to close general ledger account 5910, Miscellaneous Reimbursements, and to transfer the balance to equity account 3100, Appropriated Capital. The entry adjusts account 5910 to a zero balance and increases appropriated capital to reflect the amount of annual revenue realized from operations.

DoD Directive 7220.9-M, chapter 24, October 1983, also prescribes specific accounting entries to close general ledger accounts in the 4000 budgetary account series.

Need for Accounting Entries. Annual accounting entries for proprietary accounts are primarily required to maintain current general ledger account balances for expense and revenue accounts needed as source information for preparing Form 221. The purpose of Form 221 is to reflect financial transactions made during a specific Government fiscal year. Therefore, applicable general ledger account balances need to be closed at the end of each fiscal year so that succeeding years do not include financial transactions executed in prior years.

Annual accounting entries are also needed to reflect current financial status on Form 220. The same accounting entries that close general ledger revenue and expense accounts also transfer those account balances to general ledger equity accounts (series 3000) used to prepare Form 220. Therefore, annual end-of-year accounting entries effectively transfer annual operating results (revenues and expenses) to Form 220.

Finally, annual closing entries are required for budgetary accounts to zero out expended and unobligated account balances and to transfer those balances to other accounts.

Maintenance of General Ledger Accounts

The DISA did not request and the WHS did not make annual general ledger account closing entries needed to maintain the accuracy of DISA automated general ledger accounts for appropriated funds. Although WAAS used computer programs for annual yearend accounting entries to close appropriate DISA general ledger accounts, WHS did not execute the program because of a lack of coordination between DISA and WHS in performing close-out procedures. The DISA did not request WHS to make annual closing entries because DISA did not use proprietary general ledger accounts to prepare its FY 1994 general-purpose financial statements (Finding A).

Finding B. Annual General Ledger Account Closing Entries

Memorandum of Understanding on DISA Use of WAAS. The DISA and WHS executed a memorandum of understanding in February 1987 that did not specify who was responsible for making annual adjustments to general ledger accounts. The memorandum of understanding stated that the Defense Communications Agency (now DISA) was responsible for data entry for all transactions, except for civilian payroll data, but did not specifically require either DISA or WHS to make annual accounting entries. The memorandum of understanding has not been amended since it was executed. As a result, neither DISA nor WHS have made annual accounting entries to close and transfer general ledger account balances. The WAAS system manager stated that WHS did not execute the WAAS program to annually close the appropriate DISA general ledger accounts because the execution was not cost-effective. The WAAS system manager explained that DISA did not use the WAAS general ledger account structure to prepare annual financial statements and that WHS maintenance of the structure was, therefore, an unnecessary cost.

Coordination Needed for Annual Accounting Entries. Coordination is needed between the WAAS system manager and DISA to perform annual accounting entries. The WAAS system manager stated that, to make closing entries, DISA needed to suspend normal automated accounting system operations because the system cannot run the closing program concurrently with normal operating programs. The WAAS system manager also stated that DISA needed to make certain manual accrual computations needed for adjusting entries and to forward the information to the WAAS system manager for use in the closing process.

Preparation of Report on Budget Execution, Form 1176

The WHS maintained and used a software program within WAAS to prepare the DISA FY 1994 automated Form 1176. The software program accumulates budgetary data for commitments, obligations, accruals, paid expenditures, and other budgetary financial transactions. The software program was needed because annual end-of-year accounting entries were not made to maintain accurate budgetary account balances in the DoD approved general ledger account structure. As discussed in Finding A, DISA used FY 1994 Form 1176 to prepare its general-purpose financial statements.

Effect on DISA Standard General Ledger Accounts

WAAS Account Balances. The DISA standard general ledger account balances in the WAAS were significantly overstated. As a result, DISA could not

Finding B. Annual General Ledger Account Closing Entries

use the automated standard general ledger accounts to accurately prepare either budget execution reports or general-purpose financial statements. The specific overstatements are discussed below.

Assets Overstated by \$2.6 Billion. The FY 1994 closing balance for account 1010, Fund Balance with Treasury,³ was overstated by \$2.6 billion because the account was not updated for cash collections and cash disbursements. Account 1011, Funds Collected, had a \$0.4 billion balance, and account 1012, Funds Disbursed, had a \$3.0 billion balance. Accounting entries should have been made to close accounts 1011 and 1012 and to transfer the account balances to account 1013.

Equity Overstated by \$2.3 Billion. The FY 1994 closing balance for account 3000, Equity,⁴ was overstated by \$2.3 billion. Transfer of the balance in revenue account 5910 would have increased account 3000 by \$368 million, and transfer of the balances in the 11 expense accounts would have reduced account 3000 by \$2.62 billion, providing a net decrease of about \$2.3 billion.

Revenue Overstated by \$368 Million. The FY 1994 closing balance for account 5910, Miscellaneous Reimbursements, was overstated by \$368 million because accounting entries were not made to close the account and to transfer the account balance to account 3100, Appropriated Capital.

Expenses Overstated by \$2.6 Billion. The FY 1994 closing balance for expense accounts was overstated by \$2.6 billion. Accounting entries should have been made to close the accounts and to transfer the account balances to account 3100, Appropriated Capital. The \$2.6 billion overstatement was in 11 expense accounts (6000 series) DISA used to record expense transactions in the general ledger.

³The DISA general ledger account structure used summary account 1010, Fund Balance with Treasury, as a financial transaction recording account instead of account 1013, Funds with Treasury. Volume 4, chapter 2 of DoD 7000.14-R, January 1995, states that account 1010 is a summary account to be used only for financial reporting purposes and that transactions are not to be posted to account 1010.

⁴The DISA general ledger account structure used summary account 3000, Equity, to reflect increases and decreases in appropriated funds instead of account 3100, Appropriated Capital. Volume 4, chapter 15 of DoD 7000.14-R, January 1995, states that account 3000 is a summary account to be used only for financial reporting purposes and that transactions are not to be posted to account 3000.

Recommendations for Corrective Action

B.1. We recommend that the Director, Washington Headquarters Services, and the Director, Defense Information Systems Agency, revise the memorandum of understanding to specify responsibilities for making yearend general ledger account closing entries.

B.2. We recommend that the Director, Washington Headquarters Services, make yearend general ledger account closing entries to appropriate Defense Information Systems Agency FY 1995 general ledger accounts to provide complete and accurate FY 1996 opening account balances.

Management Comments

WHS Comments. The WHS concurred with the recommendations. Concerning Recommendation B.2., WHS stated that, based on a formal request from DISA, WHS will make FY 1995 general ledger closing entries to provide complete and accurate FY 1996 opening account balances. The WHS also commented on other information in the report.

DISA Comments. The DISA concurred with Recommendation B.1., stating that the memorandum of understanding with WHS would be revised by the first quarter of FY 1996 to specify responsibilities for making yearend general ledger account closing entries. Although not required to comment, DISA concurred with Recommendation B.2., stating that DISA will work with WHS in September 1995 to make yearend general ledger account closing entries to appropriate DISA FY 1995 general ledger accounts to provide complete and accurate FY 1996 opening account balances.

For the complete text of management comments, see Part III.

Audit Response

As a result of WHS comments, we made changes to the draft report. The Management Comments section in Part III of the report shows the affected pages.

Part II - Additional Information

Appendix A. Scope and Methodology

Audit Scope

We reviewed the DISA process for consolidating financial information and preparing FY 1994 general-purpose financial statements for DISA appropriated funds. We also evaluated automated accounting system capabilities and use of the capabilities to close revenue, expense, and selected asset accounts in the DISA general ledger account structure.

Limitations to Audit Scope. We limited the audit scope as follows.

- o We did not review the process for preparing two of the four required annual financial statements: Report On Cash Flow, Form 222, and Report on Reconciliation, Form 223. We excluded the two statements because the information needed to prepare the statements is derived either directly from Report on Operations, Form 221, or from the same general ledger accounts used to prepare Report on Financial Position, Form 220.

- o We limited the review of accounting system capabilities to perform closing entries to one DISA appropriated fund reporting unit. However, the reporting unit (the National Capital Region) executed about 80 percent of DISA FY 1994 appropriated funds.

- o We did not perform management control or substantive testing to determine the completeness and accuracy of FY 1994 general-purpose financial statement information.

Audit Locations Visited. The audit was performed at the Financial Operations Division, a division under the DISA Comptroller responsible for the preparation of general-purpose financial statements, and at Washington Headquarters Services, the system manager of the WAAS, which DISA uses to process financial transactions. We obtained FY 1994 DISA payroll and employee benefit information from the DFAS Columbus Center. Appendix G lists the organizations visited or contacted.

Computer-Processed Data. To achieve the audit objective concerning maintaining the DISA general ledger account structure, we relied on DISA FYs 1994 and 1995 computer-processed trial balances. We assessed the reliability of the trial balance data to the extent necessary to determine that specific general ledger account balances had not been closed.

Audit Methodology

To evaluate the DISA process for preparing FY 1994 general-purpose financial statements, we:

- o interviewed responsible DISA officials to determine specific techniques used to obtain, consolidate, and report financial information;
- o verified that the techniques were used to prepare DISA FY 1994 general-purpose financial statements;
- o discussed the validity of the DISA techniques with the WHS system manager for the WAAS;
- o compared the DISA techniques with techniques prescribed by DoD regulations; and
- o determined the effects of DISA techniques on specific line items of the FY 1994 general-purpose financial statements.

Because DISA did not use its automated general ledger to prepare FY 1994 general-purpose financial statements, we also performed audit procedures to determine whether DISA's automated general ledger account structure was adequately maintained. Specifically, we analyzed closing DISA FY 1994 trial balances and opening FY 1995 trial balances to determine whether:

- o general ledger accounts in the revenue and expense account series were closed, or zero balanced each fiscal year;
- o balances in appropriate asset account series were closed and transferred to other asset accounts; and
- o balances in appropriate equity account series were properly recorded.

We also determined whether WHS and DISA responsibilities for maintaining the general ledger account structure were adequately documented and executed.

Audit Period and Standards. We performed this financial-related audit from May through August 1995 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD. Accordingly, we included such tests of management controls considered necessary.

Prior Audits or Other Reviews

There have been no other audits or reviews of DISA appropriated fund financial statements in the last 5 years.

Management Control Program

DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of Management Control Program. We reviewed the DISA FY 1994 management control program to determine whether DISA:

- o evaluated risk associated with the preparation of general-purpose financial statements,

- o had effective management control techniques in place to ensure that general-purpose financial statements were prepared using the DoD approved standard general ledger structure,

- o had effective management control techniques in place to ensure that the DoD approved standard general ledger structure was properly maintained, and

- o performed a self-evaluation of those control techniques to make certain the controls worked.

Adequacy of Management Controls. We identified material management control weaknesses as defined by DoD Directive 5010.38. The DISA did not assess the risk associated with the preparation of general-purpose financial statements and did not establish adequate management control techniques to ensure that general-purpose financial statements were prepared using the DoD approved standard general ledger structure.

Adequacy of Management's Self-Evaluation. The DISA FY 1994 evaluation of controls did not disclose that adequate techniques were not in place. The specific control weaknesses are discussed in Finding A. In addition, the DISA FY 1994 management control program did not include adequate management control techniques to ensure that its automated standard general ledger was properly maintained. The specific weaknesses are discussed in Finding B.

Recommendations in Findings A and B, if adequately implemented, will improve the usefulness and credibility of DISA FY 1995 general-purpose financial statements and could result in other potential benefits (Appendix F). A copy of the report will be provided to the senior official responsible for management controls within DISA.

Appendix B. General Accounting Office Questions Concerning Self-Assessment Of Accounting Systems

On October 24, 1994, the General Accounting Office forwarded a draft Auditability Self-Assessment to the Department of Defense and to 22 other Federal agencies' Chief Financial Officers and Inspectors General for the purpose of determining the agencies' readiness to prepare auditable financial statements. The self-assessment consisted of seven questions concerning the adequacy of agency accounting systems to produce auditable financial statements. On November 16, 1994, the Office of the Under Secretary of Defense (Comptroller) requested that DoD Components provide answers to the following questions.

Question 1. Does the general ledger balance and is it supported by detailed subsidiary records that are routinely agreed to the general ledger? Detailed subsidiary records and supporting evidence as to the validity and accuracy of recorded amounts should be readily available for the following.

- o All balance sheet accounts, except cash, should have a detailed history of transactions that support the reported balance at any designated date. This includes detailed transactions that equal the amount of accruals that are reported.
- o All cash accounts should be identified (both Treasury and commercial accounts and any petty cash accounts) and included in the general ledger, with monthly reconciliations performed that reconcile the general ledger balance to another independent source (i.e. [that is] bank or Treasury accounts).
- o All operating accounts should have a general ledger history file or other detailed subsidiary file that itemizes every transaction included in the final balance.

Question 2. How often does the agency close its books and records (monthly, quarterly, annually)? Are interim financial statements prepared monthly, quarterly, or semiannually? How often are subsidiary records reconciled to the general ledger? What is the extent of adjustments to (1) the records during closing, and (2) the subsidiary records during reconciliation? How long does it take for the agency to close its books at the end of each fiscal year? If it takes more than two or three months, what are the primary contributing factors that limit timely closing?

Question 3. Is all information included in the basic financial reports (statement of financial position, statement of operations and footnotes) derived from the general ledger or related subsidiary records? If not, what is the source of this information?

- o Does the agency periodically verify through interim audit procedures the accuracy of any of its balances?

Appendix B. General Accounting Office Questions Concerning Self-Assessment Of Accounting Systems

Question 4. At what level can the agency measure its expenditures? At the program level, object class level, or other?

Question 5. Does the agency have systems that measure program outputs and outcomes?

Question 6. Does the agency have a reliable electronic interface with Treasury's standard general ledger via FACTS [Federal Agencies Centralized Trial Balance System]? Specifically, are all agency accounts and records transmitted through this process or are there any key data that has to be transmitted manually or in some other manner? What information has to be manually transmitted and why?

Question 7. What is your assessment of the agency's readiness to prepare accurate agency-wide financial statements? Please provide a detailed explanation of any causes that hinder the agency's readiness.

Appendix C. Defense Information Systems Agency FY 1994 Appropriations

Fund Source	Amount (millions)
Appropriation	
Operation and Maintenance	\$ 508.7
Procurement	54.7
Research, Development, Test and Evaluation	88.6
Subtotal	\$652.0
Other Funds	
Base Realignment and Closure-DISA	59.0
Office of the Secretary of Defense-DISA	
Operation and Maintenance	14.4
Procurement	5.6
Washington Headquarters Services-DISA	
Procurement	1.0
Corporate Information Management-DISA	
Operation and Maintenance	2.2
Subtotal	\$ 82.2
Total	\$734.2

Appendix D. DoD Standard General Ledger

Applicability to Appropriated Funds. DoD Financial Management Regulation, DoD 7000.14-R, volume 1, chapter 7, "Department of Defense Standard General Ledger," prescribes the DoD Uniform Chart Of Accounts and states that the chart is applicable to all DoD accounting systems for all appropriations and funds. DoD 7000.14-R states that the chart of accounts includes both proprietary and budgetary accounts, each of which are self-balancing within themselves. The chart of accounts is based on the U.S. Government standard general ledger.

Benefits of a Standard General Ledger. The DoD uniform chart of accounts is a minimum structure required to assure consistent treatment of similar transactions. A principal objective of the DoD standard general ledger is to establish a standard account structure for the integration of appropriation accounting; property accounting, revenue accounting, and expense accounting; and to provide DoD managers with the visibility over accurate and complete financial data, including total operating expenses and total acquisition cost of real and personal property.

Financial Reports Required. DoD 7000.14-R, volume 1, chapter 2, states that general ledger accounts shall be the source of required budget execution reports and annual financial statements submitted to the Department of Treasury. DoD Directive 7220.9-M, chapters 93 and 94, October 1983, prescribes procedures for the preparation of budgetary financial reports and annual financial statements for appropriated funds. DoD Directive 7220.9-M provides crosswalks from the DoD approved standard general ledger accounts to the required financial reports.

Budgetary Financial Reports. DoD Directive 7220.9-M, chapter 93, provides detailed guidance on the purpose, content, format, and preparation of budgetary financial reports due from DoD Components on a monthly, quarterly, and annual basis. The required reports are:

- o Report on Budget Execution, (Form 1176),
- o Flash Report on Obligation Status (Flash Report),
- o Report on Obligations (Form 225),
- o Appropriation Status by Fiscal Year Program and Subaccounts (Report 1002), and
- o Report on Reimbursements (Report 725).

Form 1176. The Report on Budget Execution (Form 1176) is designed to show, on a consistent basis and in practical detail, the status of budget resources and their execution. This report is for budget execution tracking only and does not track asset and other proprietary accounts. DoD Directive 7220.9-M, chapter 93, includes the procedures for completing

the budget execution report. Chapter 93 includes guidance on the specific DoD general ledger account balances that are to be on specific Form 1176 line items. Chapter 93 guidance indicates that only the 4000 series of accounts (budgetary account series) is to be used to prepare Form 1176.

Flash Report. The Flash Report is used to monitor the planned monthly execution of approved DoD programs. Amounts are to be reported by appropriation or fund account and by fiscal year program for direct and reimbursable programs. Although the Flash Report is not required to be prepared from specific general ledger accounts, the amounts reported should be consistent with those reported on other budgetary reports, such as Form 1176, that is to be prepared from specific general ledger accounts.

Form 225. The Report on Obligations (Form 225) is a quarterly report of obligations by object class and related summary data required by the Department of Treasury. Although, DoD Directive 7220.9-M, chapter 93, does not specifically require that Form 225 be prepared from specific general ledger accounts, Form 225 is to be consistent with related amounts reported on Form 1176, which is required to be prepared from general ledger accounts.

Report 1002. Report 1002 provides budget execution data with respect to obligation authority in terms of fiscal year programs and budget activities and subactivities that are not included in Form 1176. Chapter 93 does not specifically require use of general ledger accounts to prepare Report 1002. However, chapter 93 cites a supplementary schedule that is dependent on specific line items of Form 1176. Because Form 1176 is prepared from general ledger accounts and because Report 1002 is supported by the supplementary schedule, accurate preparation of Report 1002 is indirectly dependent on properly stated and maintained general ledger accounts.

Report 725. Report 725 is designed to provide budget execution data for reimbursements, in terms of their sources and fiscal year programs, that are not available on Form 1176. Chapter 93 requires that the DoD uniform chart of accounts (that is, the general ledger accounts) shall be the basis for reporting appropriation and fund data on Report 725. Chapter 93 identifies the general ledger accounts to be used in preparing Report 725.

Annual Financial Statements. DoD Directive 7220.9-M, chapter 94, provides guidance on preparation of general-purpose financial statement reports. Chapter 94 requires DoD Components to prepare the following general-purpose financial statements:

- o Report on Financial Position, Form 220;
- o Report on Operations, Form 221;
- o Report on Cash Flow, Form 222; and
- o Report on Reconciliations, Form 223.

Appendix D. DoD Standard General Ledger

Chapter 94 includes the proprietary general ledger accounts to be used to prepare each of the forms. The financial statements must be prepared annually and include financial information as of the close of each fiscal year. Chapter 94 states that the reports are required to be submitted by all DoD Components to the Department of Treasury and to the Under Secretary of Defense (Comptroller). Forms 220 and 221 are discussed in Part I.

Report on Cash Flow, Form 222. This report reconciles the beginning and ending Fund Balances with Treasury and Cash, by presenting all significant sources and applications of resources during the fiscal year. Chapter 94 provides detailed preparation instructions.

Report on Reconciliation, Form 223. This report reconciles operating expenses and cash outlays for the fiscal year. Chapter 94 provides preparation instructions and identifies the general ledger accounts to be used for source data.

Appendix E. Defense Information Systems Agency Appropriated Fund Reporting Units

The following DISA reporting units are in the DISA appropriated fund accounting system and provide financial data to the DISA Financial Operations Division.

Organizations as of September 30, 1994

Base Realignment and Closure Commission
Defense Information Systems Agency
Denver, CO

DISA Cross-Functional Integration
Blacklick, OH

DISA Central/Special Operations Command
McDill Air Force Base, FL

DISA European Area
Stuttgart, Germany

Headquarters, DISA
National Capital Region
Arlington, VA

DISA Pacific Area
Wheeler Air Force Base, HI

DISA Space Command
Peterson Air Force Base, CO

Joint Interoperability Test Center
Fort Huachuca, AZ

Joint Interoperability and Engineering Office
Fort Monmouth, NJ

Standard Systems Group
Maxwell Air Force Base
Gunther Annex, AL

**Appendix E. Defense Information Systems Agency
Appropriated Fund Reporting Units**

Organizations as of September 30, 1994 (cont'd)

Network Management Center
Scott Air Force Base, MO

Technical Research Institute
Laurel, MD

White House Communications Agency
Washington, DC

Organizations added in FY 1995

DISA Service Provisioning Organization
Fort Huachuca, AZ

DISA Service Provisioning Organization
Scott Air Force Base, IL

DISA Service Provisioning Organization
Hickam Air Force Base, HI

DISA Service Provisioning Organization
Kapaun Army Depot, Germany

DISA Service Provisioning Organization
Yokota Air Force Base, Japan

DISA Service Provisioning Organization
Washington, DC

Appendix F. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Type of Benefit
A.1.	Management Controls. Will result in complete and comparable financial statements.	Nonmonetary.
A.2.	Management Controls. Will train personnel to prepare financial statements.	Nonmonetary.
A.3.	Management Controls. Will provide reasonable assurance that financial statements are prepared from the correct financial information source.	Nonmonetary.
B.1.	Management Controls. Will result in a current general ledger account structure.	Nonmonetary.
B.2.	Management Controls. Will facilitate maintenance of a current general ledger account structure.	Nonmonetary.

Appendix G. Organizations Visited or Contacted

Office of the Secretary of Defense

Office of the Under Secretary of Defense (Comptroller), Washington, DC

Defense Agencies

Defense Finance and Accounting Service, Arlington, VA

Defense Finance and Accounting Service, Columbus, OH

Defense Finance and Accounting Service, Indianapolis, IN

Defense Finance and Accounting Service, Richmond Detachment, Richmond, VA

Defense Finance and Accounting Service Center, Cleveland, OH

Defense Accounting Office, Defense Information Systems Agency,
Arlington, VA

Defense Finance and Accounting Service Center, Denver, CO

Defense Accounting Office, Pentagon

Defense Information Systems Agency, Arlington, VA

Washington Headquarters Services

Appendix H. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller) and Chief Financial Officer
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)
Assistant to the Secretary of Defense (Command, Control, Communications, and
Intelligence)
Assistant to the Secretary of Defense (Public Affairs)

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Auditor General, Department of the Navy

Department of the Air Force

Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Logistics Agency
Director, National Security Agency
Inspector General, National Security Agency
Director, Defense Information Systems Agency
Director, Washington Headquarters Services

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

Non-Defense Federal Organizations and Individuals (cont'd)

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.

Part III - Management Comments

Defense Information Systems Agency Comments



DEFENSE INFORMATION SYSTEMS AGENCY
701 S. COURT HOUSE ROAD
ARLINGTON, VIRGINIA 22204-2199



IN REPLY
REFER TO:

Inspector General

25 September 1995

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE
ATTN: Director, Readiness and Operational Support

SUBJECT: Agency Comments to Audit Report on Defense
Information Systems Agency FY 1994 General-Purpose
Financial Statements (Project No. 5RF-6010.03)

Reference: DODIG Audit Report, subject as above, 16 Aug 95

1. We have reviewed the subject draft report and concur with the recommendations addressed to DISA. Our management comments are enclosed which discuss corrective actions to be taken on the recommendations. Where corrective action has already been taken, we have identified the actions taken and provided the date of completion.

2. The point of contact is Ms. Sandra J. Leicht, Audit Liaison. If you have questions on our response, Ms. Leicht can be reached on (703) 607-6316.

FOR THE DIRECTOR:

RICHARD T. RACE
Inspector General

1 Enclosure a/s

Quality Information for a Strong Defense

**MANAGEMENT COMMENTS TO AUDIT REPORT ON DEFENSE INFORMATION
SYSTEMS AGENCY FY 1994 GENERAL-PURPOSE FINANCIAL STATEMENTS
(PROJECT NO. 5RF-6010.03)**

1. **RECOMMENDATION A.1.:** Recommend that the Director, Defense Information Systems Agency, issue a policy memorandum requiring use of the DoD approved general ledger account structure in the Washington Headquarters Services Allotment Accounting System as source information in preparing FY 1995 and subsequent fiscal year appropriated fund general-purpose financial statements.

Response: Concur. A policy memo requiring use of the DOD approved general ledger account structure in the WAAS as source information in preparing FY 1995 and subsequent fiscal year appropriated fund general-purpose financial statements will be issued no later than October 1995. However, as stated above, this will not result in accurate financial statements due to the lack of the DISA field offices' financial data. DISA is working with WHS to remedy this situation.

2. **RECOMMENDATION A.2:** Recommend the Director, Defense Information Systems Agency, establish a continuing professional education program and train employees assigned to prepare general-purpose financial statements in the relationship of proprietary general ledger accounts and financial statement line items.

Response: Concur. Personnel assigned to prepare general-purpose financial statements will be provided additional continuing professional education in FY 1996 as noted in the employees' Individual Development Plan for 1996.

3. **RECOMMENDATION A.3:** Recommend that the Director, Defense Information Systems Agency establish appropriate management control procedures as required by DOD Directive 5010.38, "Internal Management Control Program," April 14, 1987, to verify that financial statements are prepared using the DOD approved general ledger account structure and annually reviewing the controls to ensure that the controls are adequate and working.

Response: Concur. Appropriate management control procedures will be established by second quarter of FY 1996.

4. **RECOMMENDATION B.1:** Recommend that the Director, Washington Headquarters Services, and the Director, Defense Information Systems Agency, revise the memorandum of understanding to specify responsibilities for making year end general ledger account closing entries.

Response: Concur. The Director, DISA will revise the memorandum of understanding to specify responsibilities for making year-end general ledger account closing entries the first quarter of FY 1996.

5. **RECOMMENDATION B.2:** Recommend that the Director, Washington Headquarters Services, make year end general ledger account closing entries to appropriate Defense Information Systems Agency FY 1995 general ledger accounts to provide complete and accurate FY 1996 opening account balances.

Response: Concur. DISA will work with WHS in September 1995 to make year-end general ledger account closing entries to appropriate DISA FY 1995 general ledger accounts to provide complete and accurate FY 1996 opening account balances.

DISA has and will continue to work with DFAS and WHS to improve the accuracy of its financial statements. A process is currently being developed to include data reported from the DISA field offices into the WAAS system. This should improve the accuracy of the DISA appropriated financial statements.

GENERAL MANAGEMENT COMMENTS:

The DISA FY 1994 appropriated fund accounting consists of a headquarters reporting unit and 12 field reporting units. These field units are located world-wide and are provided accounting and finance support by their host military service. As a result, one field office may be serviced via the Air Force accounting system while another office may use the Army's accounting system, etc.

The lack of standard data elements for these various financial systems, the lack of a standard general ledger, and the limited use of the DOD chart of accounts along with the incompatibility of these systems are critical reasons why DISA has had to rely on the budgetary reports as the source data for the financial statements. To illustrate, the financial discrepancies identified in this audit are inaccurate. For

example, the "omitted military equipment assets of about \$495 million" was obtained using the WAAS automated general ledger accounts. This may be a correct figure for the organizations within DISA who use the WAAS for their accounting; however, it does not include the DISA field offices' financial data. The same can be said about the other account variances.

Until DOD, thru DFAS, develops and provides a standard DOD-wide, integrated accounting and finance system, DISA has no other recourse but to work with currently developed systems and processes available.

On 1 October 1992, DFAS capitalized a number of DISA accounting and finance personnel and functions. At that time the responsibility for the general ledger/trial balance became primarily a DFAS responsibility.

Washington Headquarters Services Comments

Final Report
Reference



ADMINISTRATION
AND MANAGEMENT

OFFICE OF THE SECRETARY OF DEFENSE

WASHINGTON, DC 20301-1950

13 SEP 1995



MEMORANDUM FOR DIRECTOR, READINESS AND OPERATIONAL SUPPORT (DODIG)

SUBJECT: Audit Report on Defense Information Systems Agency
FY 1994 General-Purpose Financial Statements
(Project No. 5RF-6010.03)

The subject draft report has been reviewed and the following comments are provided per your request.

Executive Summary

Introduction, para. 2, sentences 3 and 4 - These two sentences should read "WHS developed an allotment accounting system for DISA which contains the standard DoD general ledger accounts. The DISA uses the DISA-WAAS system to record accounting transactions for the National Capital Region excluding civilian payroll costs."

Audit results, para. 2 - This paragraph is misleading. WHS did not make annual closing entries for the DISA-WAAS system because DISA elected not to use the resultant trial balances for financial reporting. While it is true that certain balances are overstated due to not closing, it is important to note that even if WHS had closed the accounts, the trial balances could not be used to prepare financial statements for the following reasons: 1) the DISA-WAAS only contains transactions for the National Capital Region and does not include the 12 Field Activities, and 2) payroll costs for all DISA civilian employees were not entered into DISA-WAAS and were therefore excluded from general ledger control. The DISA-WAAS accounted for approximately 60% of the total DISA budget.

Summary of Recommendations - The report states that WHS should make FY 1994 general ledger account closing entries to provide complete and accurate FY 1995 opening account balances. Based on a formal request from DISA, WHS will make FY 1995 general ledger closing entries to provide complete and accurate FY 1996 opening account balances.

However, it should be noted that the resultant FY 1996 trial balance for DISA can be used to prepare financial statements only if DISA enters civilian payroll costs and integrates the accounting data for its 12 field activities into DISA-WAAS.

Revised
Page i

Revised
Page i

Washington Headquarters Services Comments

Final Report
Reference

Finding B - This paragraph is misleading and states that DISA could not use its general ledger accounts to prepare annual financial statements. DISA did not elect to use its general ledger accounts for reporting purposes because they were not all inclusive.

Suggest this paragraph be replaced with the following: "DISA did not request and, as a result, WHS did not make annual closing entries to the DISA-WAAS general ledger. This resulted in materially incorrect account balances for the end of FY 1994. The closing entries were not made because DISA and WHS did not clearly define their responsibilities for making the closing entries since DISA did not use its general ledger for any report preparation. DISA financial statements were prepared using an off-line spreadsheet to incorporate all accounting data."

Revised
Page 11

Annual Accounting Entries

Need for Accounting Entries - The contents of the third paragraph are addressed on page 12 under the heading of "Funds with Treasury (Account 1013)". Suggest this paragraph be deleted.

Deleted
Page 11

Maintenance of General Ledger Accounts - The first paragraph should be worded as follows to more clearly represent the facts: "DISA did not request that WHS close appropriate general ledger accounts at fiscal year-end. WHS uses three computer programs to close general ledger accounts for all systems for which WHS is the system manager. WHS did not execute these programs for DISA-WAAS because DISA did not use its general ledger products for the preparation of any financial reports."

Revised
Page 12

Preparation of Report on Budget Execution, Form 1176 - The third sentence is inaccurate and should read: The software program was needed because DISA did not use its general ledger to prepare its monthly DD 1176 reports.

Effect on DISA Standard General Ledger Accounts - Change WAAS to DISA-WAAS in the first sentence of the first paragraph. Delete the last sentence of the second paragraph. Delete the words "because WHS did not make accounting entries to transfer revenue and expense accounts to account 3000" in the first sentence of the third paragraph. Change the wording in the fourth and fifth paragraphs from "because WHS did not make accounting entries" to "because accounting entries were not made".

Deleted
Page 14

Revised
Page 14

WHS concurs with the two recommendations in Finding B.

My point of contact for this matter is Mr. William Bader, who can be reached at 703-614-0971.


D. O. Cooke

Audit Team Members

This report was prepared by the Readiness and Operational Support Directorate, Office of the Assistant Inspector General for Auditing, DoD.

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